RAFAKO GROUP

PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the nine months ended Sep 30 2020

November 27th 2020

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Appendix:

1. Interim condensed financial statements of RAFAKO S.A. for the nine months ended September 30th 2020

(PLN thousand)

Interim condensed consolidated statement of comprehensive income

for the nine months ended September 30th 2020

	Note	*9 months ended Sep 30 2020*	*9 months ended Sep 30 2019*	*3 months ended Sep 30 2020*	*3 months ended Sep 30 2019*
Continuing operations					
Revenue	11.1	**795,520**	**817,744**	**301,558**	**298,575**
Revenue from sale of goods and services		793,905	817,164	301,023	298,422
Revenue from sale of materials		1,615	580	535	153
Cost of products and services sold	11.2	(982,488)	(961,433)	(289,371)	(305,531)
Cost of materials sold		(2,440)	(3,416)	(1,722)	(2,865)
Gross profit/(loss)		**(189,408)**	**(147,105)**	**10,465**	**(9,821)**
Other income	11.2	32,373	3,232	21,205	1,246
Selling expenses	11.2	(11,091)	(17,038)	(2,700)	(4,687)
Administrative expenses	11.2	(37,805)	(37,659)	(11,167)	(11,231)
Other expenses	11.2	(40,572)	(8,525)	(9,275)	(4,143)
Research and development costs		(5,145)	(6,928)	(1,229)	(1,650)
Operating profit/(loss)		**(251,648)**	**(214,023)**	**7,299**	**(30,286)**
Finance income	11.2	3,792	5,286	1,577	127
Finance costs	11.2	(6,585)	(5,440)	(400)	(451)
Profit/(loss) before tax		**(254,441)**	**(214,177)**	**8,476**	**(30,610)**
Income tax expense	11.3	(15,133)	14,648	(323)	5,836
Net profit/(loss) from continuing operations		**(269,574)**	**(199,529)**	**8,153**	**(24,774)**

(PLN thousand)

Interim condensed consolidated statement of comprehensive income
for the nine months ended September 30th 2020

	Note	*9 months ended Sep 30 2020*	*9 months ended Sep 30 2019*	*3 months ended Sep 30 2020*	*3 months ended Sep 30 2019*
Other comprehensive income for period		**(320)**	**(228)**	**258**	**222**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		112	(22)	(1)	17
Exchange differences on translating foreign operations attributable to non-controlling interests		59	8	7	9
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**171**	**(14)**	**6**	**26**
Items that will not be reclassified to profit or loss in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)		(606)	(264)	312	242
Tax on other comprehensive income	11.3	115	50	(60)	(46)
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(491)**	**(214)**	**252**	**196**
Total comprehensive income for period		**(269,894)**	**(199,757)**	**8,411**	**(24,552)**
Net profit/(loss) attributable to:		**(269,574)**	**(199,529)**	**8,153**	**(24,774)**
Owners of the parent	11.24	(259,919)	(199,255)	11,296	(24,670)
Non-controlling interests		(9,655)	(274)	(3,143)	(104)
Comprehensive income attributable to:		**(269,894)**	**(199,757)**	**8,411**	**(24,552)**
Owners of the parent		(260,298)	(199,490)	11,548	(24,455)
Non-controlling interests		(9,596)	(267)	(3,137)	(97)
Weighted average number of shares		127,431,998	127,431,998	127,431,998	127,431,998
Basic/diluted earnings/(loss) per share, PLN	11.24	(2.12)	(1.57)	0.06	(0.19)

Racibórz, November 27th 2020

Mariusz Zawisza	Radosław Domagalski-Łabędzki	Jarosław Pietrzyk	Ewa Porzucek	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN thousand)

Interim condensed consolidated statement of financial position

as at Sep 30 2020

	Note	*Sep 30 2020*	*Dec 31 2019*	*Sep 30 2019*
ASSETS				
Non-current assets				
Property, plant and equipment	11.6	140,552	147,362	147,433
Goodwill	11.5	3,971	6,704	9,166
Intangible assets	11.5	5,557	6,840	7,011
Right-of-use assets	11.8	8,385	15,793	17,131
Other long-term receivables	11.9	105,927	77,780	47,341
Shares	11.10	1,376	1,496	1,489
Non-current financial assets	11.11	88	–	–
Deferred tax assets	11.3	28,185	42,672	57,737
Long-term prepayments and accrued income		2,442	4,866	5,653
		296,483	**303,513**	**292,961**
Current assets				
Inventories	11.12	36,213	33,027	32,997
Short-term trade and other receivables	11.15	385,298	607,964	373,571
Contract assets	10	165,270	269,787	453,709
Income tax asset		692	605	208
Other current financial assets	11.13	112	–	24,810
Short-term loans		–	–	10,813
Cash and cash equivalents	11.14	93,712	66,082	77,423
Short-term accrued expenses and deferred income	11.16	6,831	21,330	17,221
		688,128	**998,795**	**990,752**
Non-current assets held for sale		312	123	110
TOTAL ASSETS		**984,923**	**1,302,431**	**1,283,823**

Racibórz, November 27th 2020

Mariusz Zawisza	Radosław Domagalski-Łabędzki	Jarosław Pietrzyk	Ewa Porzucek	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN thousand)

Interim condensed consolidated statement of financial position

as at Sep 30 2020

	Note	*Sep 30 2020*	*Dec 31 2019*	*Sep 30 2019*
EQUITY AND LIABILITIES				
Equity				
Share capital	11.20	254,864	254,864	254,864
Share premium	11.23	165,119	165,119	165,119
Statutory reserve funds		25,893	215,219	215,219
Translation reserve		(160)	(272)	(95)
Retained earnings/accumulated losses, including:		(595,725)	(524,686)	(245,464)
Profit/(loss) brought forward		(335,848)	(51,565)	(46,209)
Net profit/(loss) for period		(259,877)	(473,121)	(199,255)
		(150,009)	**110,244**	**389,643**
Non-controlling interests		(5,578)	4,019	8,254
Total equity		**(155,587)**	**114,263**	**397,897**
Non-current liabilities				
Bank and other borrowings		854	24	33
Finance lease liabilities	11.8	3,175	7,589	9,620
Employee benefit obligations and provisions	11.26, 11.27	29,241	29,480	22,788
Other non-current liabilities	11.25	12,602	20,595	15,731
Other long-term provisions	11.28	63,427	36,357	33,644
Deferred tax liability		–	–	3
		109,299	**94,045**	**81,819**
Current liabilities				
Current portion of interest-bearing borrowings	15	37,688	113,051	120,716
Finance lease liabilities		4,477	5,490	4,342
Short-term trade and other payables	11.29	537,986	628,655	343,571
Income tax payable		1	156	110
Employee benefit obligations and provisions	11.30, 11.27	36,209	26,324	28,001
Contract liabilities	10	369,862	251,625	256,234
Other short-term provisions	11.31	33,845	47,121	24,929
Short-term accrued expenses and deferred income		10,701	21,471	25,925
Grants		442	230	279
		1,031,211	**1,094,123**	**804,107**
Total liabilities		**1,140,510**	**1,188,168**	**885,926**
TOTAL EQUITY AND LIABILITIES		**984,923**	**1,302,431**	**1,283,823**

Racibórz, November 27th 2020

Mariusz Zawisza	Radosław Domagalski-Łabędzki	Jarosław Pietrzyk	Ewa Porzucek	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN thousand)

Interim condensed consolidated statement of cash flows

for the nine months ended September 30th 2020

	Note	*9 months ended Sep 30 2020*	*12 months ended Dec 31 2019*	*9 months ended Sep 30 2019*
Cash flows from operating activities				
Profit/(loss) before tax		**(254,441)**	**(475,674)**	**(214,177)**
Adjustments for:		**358,117**	**456,527**	**194,319**
Depreciation and amortisation		11,233	17,599	13,314
Foreign exchange gains/(losses)		59	(65)	(33)
Interest and dividends, net		2,136	4,457	3,051
(Gain)/loss from investing activities		666	34,668	(2,658)
(Increase)/decrease in receivables	11.4	195,101	(113,100)	151,724
(Increase)/decrease in inventories		(3,186)	1,126	1,156
Increase/(decrease) in employee benefit obligations, excluding borrowings	11.4	(89,016)	288,916	771
Change in provisions, accruals and deferrals	11.4	19,947	37,908	18,710
Change in contract assets and liabilities	11.4	222,754	187,527	10,377
Income tax (paid)/received		(1,736)	(2,482)	(2,461)
Other		159	(27)	368
Net cash from operating activities		**103,676**	**(19,147)**	**(19,858)**
Cash flows from investing activities				
Sale of property, plant and equipment and intangible assets		6,724	2,998	1,663
Purchase of property, plant and equipment and intangible assets	11.4	(2,457)	(3,235)	(544)
Sale of financial assets		535	–	–
Purchase of financial assets		–	(148)	(148)
Dividends and interest received		1	–	2
Other		–	234	–
Net cash from investing activities		**4,803**	**(151)**	**1,187**

(PLN thousand)

Interim condensed consolidated statement of cash flows
for the nine months ended September 30th 2020

	Note	*9 months ended Sep 30 2020*	*12 months ended Dec 31 2019*	*9 months ended Sep 30 2019*
Cash flows from financing activities				
Payment of finance lease liabilities		(3,869)	(7,501)	(5,922)
Proceeds from borrowings		1,025	12,244	26,008
Repayment of borrowings	11.4	(75,981)	(2,621)	(8,280)
Interest paid		(1,616)	(3,546)	(2,601)
Bank fees		(411)	(1,052)	(1,040)
Other		196	(807)	(759)
Net cash from financing activities		**(80,656)**	**(3,283)**	**7,406**
Net increase/(decrease) in cash and cash equivalents		27,823	(22,581)	(11,265)
Net foreign exchange gains/(losses)		(193)	(29)	(4)
Cash at beginning of period	11.14	66,082	88,692	88,692
Cash at end of period	11.14	93,712	66,082	77,423

Racibórz, November 27th 2020

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President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN thousand)

Interim condensed consolidated statement of changes in equity

for the nine months ended September 30th 2020

	Share capital	*Share premium*	*Statutory reserve funds*	*Translation reserve*	*Retained earnings/ accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at Jan 1 2020	**254,864**	**165,119**	**215,219**	**(272)**	**(524,686)**	**110,244**	**4,019**	**114,263**
Profit/(loss) from continuing operations	–	–	–	–	(259,919)	(259,919)	(9,656)	(269,575)
Other comprehensive income	–	–	–	112	(491)	(379)	59	(320)
Distribution of retained earnings	–	–	(189,326)	–	189,326	–	–	–
Changes in the Group's structure	–	–	–	–	45	45	–	45
As at Sep 30 2020	**254,864**	**165,119**	**25,893**	**(160)**	**(595,725)**	**(150,009)**	**(5,578)**	**(155,587)**
As at Jan 1 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,675)**	**588,815**	**8,520**	**597,335**
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	318	318	–	318
As at Jan 1 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,357)**	**589,133**	**8,520**	**597,653**
Profit/(loss) from continuing operations	–	–	–		(199,255)	(199,255)	(274)	(199,529)
Other comprehensive income	–	–	–	(22)	(214)	(236)	8	(228)
Distribution of retained earnings	–	–	23639	–	(23,639)	–	–	–
As at Sep 30 2019	**254,864**	**165,119**	**215,219**	**(95)**	**(245,464)**	**389,643**	**8,254**	**397,897**

(PLN thousand)

Interim condensed consolidated statement of changes in equity

for the nine months ended September 30th 2020

	Share capital	Share premium	Statutory reserve funds	Translation reserve	Retained earnings/ accumulated losses	Total	Non-controlling interests	Total equity
As at Jan 1 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,675)**	**588,815**	**8,520**	**597,335**
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	319	319	–	319
As at Jan 1 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,356)**	**589,134**	**8,520**	**597,654**
Profit/(loss) from continuing operations	–	–	–	–	(473,121)	(473,121)	(4,465)	(477,586)
Other comprehensive income	–	–	–	(199)	(5,570)	(5,769)	(36)	(5,805)
Distribution of retained earnings	–	–	23,639	–	(23,639)	–	–	–
As at Dec 31 2019	**254,864**	**165,119**	**215,219**	**(272)**	**(524,686)**	**110,244**	**4,019**	**114,263**

Racibórz, November 27th 2020

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NOTES

1. General information

The RAFAKO Group (the "Group") comprises RAFAKO S.A. w restrukturyzacji (in restructuring) (the "parent", the "Company") and its subsidiaries presented in Note 7.

RAFAKO S.A. w restrukturyzacji (the "Company" or the "parent") is a listed joint-stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland. The Company was established under a notary deed of January 12th 1993. On August 24th 2001, it was entered in the Business Register maintained by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under No. KRS 34143. The parent's Industry Identification Number (REGON) is 270217865. The parent's shares are listed on the Warsaw Stock Exchange.

The parent's registered office is located at ul. Łąkowa 33 in Racibórz, Poland. The Company's registered office is also its principal place of business.

The Group companies have been established for an indefinite term.

These interim condensed consolidated financial statements of the Group cover the nine months ended September 30th 2020 and contain consolidated comparative data for the nine months ended September 30th 2019 and as at December 31st 2019. The interim condensed consolidated statement of comprehensive income contains data for the nine months ended September 30th 2020 and the comparative data for the nine months ended September 30th 2019, which has not been audited, but has been reviewed by an auditor.

The RAFAKO Group provides general contractor services offering its proprietary technological solutions to the oil and gas industry and the power sector. It designs and manufactures steam generators, including supercritical steam generators, as well as environmental protection equipment, including flue gas desulfurisation and NOx reduction units.

These interim condensed consolidated financial statements for the nine months ended September 30th 2020 were authorised for issue by the parent's Management Board on November 27th 2020.

The Group's interim consolidated financial performance may not be indicative of its potential full-year financial performance.

2. Basis of preparation

These interim condensed consolidated financial statements of the Group for the nine months ended September 30th 2020 have been prepared in accordance with EU-endorsed International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

These interim condensed consolidated financial statements of the RAFAKO Group have been prepared in accordance with the historical cost principle, modified with respect to financial instruments measured at fair value.

The reporting currency of the consolidated financial statements is the Polish złoty, and all amounts are expressed in thousands of Polish złoty (PLN thousand), unless indicated otherwise.

In order to provide a better understanding of the financial position and assets of the Group, the comparative data additionally includes the consolidated statement of financial position as at September 30th 2019 and consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for 2019, despite the absence of such requirements in IAS 34.

The interim condensed consolidated financial statements do not contain all the information which is typically disclosed in full-year consolidated financial statements prepared in accordance with IFRS. These interim condensed consolidated financial statements should be read in conjunction with the 2019 consolidated financial statements of the Group.

These interim condensed consolidated financial statements have been prepared on a going concern basis, although the Management Board of the parent is aware of a number of uncertainties that pose a material threat to the Group's ability to continue trading.

The Management Board of RAFAKO S.A decided to submit, on September 2nd 2020, an application to the *Monitor Sądowy i Gospodarczy* official gazette to announce the opening of a procedure to approve arrangement with its creditors under the Restructuring Law of May 15th 2015 as amended by the Act of June 19th 2020 on subsidies for interest payments on bank loans granted to businesses affected by the COVID-19 situation and on simplified procedure to approve arrangements due to COVID-19.

The purpose of the restructuring procedure is to take remedial actions to eliminate the risk of the parent ceasing to trade, and the decision to file for bankruptcy protection was a significant part of the restructuring plan, which offers the parent a chance to recover.

On November 10th 2020, the Management Board of RAFAKO S.A. adopted a restructuring plan for the parent (the "Restructuring Plan") and arrangement proposals for its creditors. As at the date of these interim condensed financial statements, the arrangement proposals had been sent by the parent to its creditors. A notice was published in the *Monitor Sądowy i Gospodarczy* official journal to announce the date of the meeting of creditors, scheduled for December 10th 2020.

Approval of the arrangement proposals by the parent's creditors will be an important step towards successful restructuring of the Group. Such decision will be a prerequisite for a further turnaround process in accordance with plans and for protecting the parent against a bankruptcy scenario. The Restructuring Plan is based on three revenue scenarios (base case, best case and worst case). A private creditor's test also presented the parent's bankruptcy scenario.

The Management Board of the parent is thoroughly analysing the indications of the threat to the Group's ability to continue trading and the validity of this assumption. Opening of the restructuring proceedings does not preclude an assumption that the parent will continue to trade as a going concern. The intention of the Management Board is for the Company to continue trading, while the purpose of the restructuring proceedings is to avoid bankruptcy by allowing the debtor to restructure its debt through arrangement with creditors.

However, it is not possible to disregard the parent's distressed financial condition. It involves a high level of debt carried by RAFAKO S.A. w restrukturyzacji, refusal by its suppliers to extend trade credit and their opting for cash or prepaid transactions, adverse development of the parent's key financial ratios and, last but not least, its lack of debt capacity, which significantly hinders the acquisition of new orders and continuation of existing contracts.

However, despite the financial considerations, there were no direct operating circumstances that may have a material and direct adverse effect on the parent's ability to continue as a going concern. An important criterion for adopting the going concern assumption is the absence of the management's intention to cease trading or to put the entity to liquidation. RAFAKO S.A. w restrukturyzacji does not experience personnel shortages, has not lost any key management staff or specialist engineering personnel or workforce. There are no shortages of important raw materials or threat from a serious competitor. The Company has not lost its core markets, licences or key suppliers, although the Company's ability to win new contracts has been seriously and adversely affected by the lack of debt capacity.

It was determined that the parent has the potential to win new contracts in its core business, where it has both technical, technological and specialist personnel and know-how. The revenue-generating potential is concentrated primarily at the Steam Generator Plant and in the Power and Environmental Protection Division, which was recently been combined into the single Power Services Division. The order book will be reviewed on an ongoing basis, while in its efforts to win new contracts the parent will focus on its key competences and competitive advantages in selected markets. Please note that the market in which the Company operates has changed significantly. Changes in the commercial and industrial power generation market and the shrinking volume of capital spending on energy sources based on solid fuels have significantly affected the parent's position and will determine its future revenue-generating potential. This aspect has also been taken into account in the assessment of the parent's ability to continue trading and to generate revenue in the future. The Company is now in the process of intensive restructuring efforts, the main objective of which is to meaningfully reduce its cost base.

During the three months to September 30th 2020, the Management Board of RAFAKO S.A. w restrukturyzacji was implementing its planned restructuring measures, which involved extensive efforts to bring down operating expenses and put in place comprehensive organisational improvements at the parent. Both one-off and staged procedures were undertaken, including cost reductions and savings in areas where potential for such savings had been identified. The organisational chart was modified and streamlined towards a much leaner management structure at RAFAKO S.A. w restrukturyzacji. A collective redundancy process was launched in line with the relevant rules adopted on September 21st 2020, setting the maximum number of employees affected by the redundancies at 400, with the redundancy scheme due to run until March 31st 2021. The efforts to optimise workforce are consistent with the revised organisational chart and are necessary to adapt the staffing levels to the new scale of the organisation. An agreement was reached with employee representatives to reduce contributions to the Social Fund for 2021–2023 by 80% and to cut length-of-service awards by 50% in the same period by amending the Collective Bargaining Agreement. A process was launched to optimise the use of production space and to rent out unnecessary production and office areas to third parties, and negotiations were commenced to dispose of the parent’s redundant assets held for sale.

On September 28th 2020, RAFAKO EBUS Sp. z o.o. and an organised part of its business were sold for a total price of PLN 31m. For more details, see Note 8 to these interim condensed consolidated financial statements.

Another important element of the process is the significant progress made in delivering the project to construct a 910 MW supercritical power generating unit at the Jaworzno Power Plant. On November 13th 2020, a trial run was completed, confirming that the unit met the requirements set out in the contract, whereupon the parties performed acceptance of the unit, which entered commercial operation. The unit operates within the Polish power system. For more details, see Note 10.1.1 to these interim condensed consolidated financial statements.

On November 10th 2020, RAFAKO S.A. w restrukturyzacji and Bank PKO BP S.A. executed Annex 33 to the multi-purpose credit facility agreement of February 7th 2012, as amended. The main provisions of the annex extend the availability and maturity date of the facility until January 10th 2021, and cap the aggregate amount that can be drawn under all sub-facilities at PLN 119,916,154.85.

3. Changes in accounting policies (significant accounting policies)

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies presented in the Group's most recent consolidated financial statements for the year ended December 31st 2019, except for changes resulting from the application of the following standards.

- Amendments to IFRS 3 *Business Combinations*

The amendments regard the definition of a business and cover mainly the following issues:

- they clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- they narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce cost;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date falls in or after the beginning of the first annual reporting period beginning on or after January 1st 2020 and for asset acquisitions that occurred in or after the beginning of that period. Therefore, the amendment did not affect the data disclosed in the Group's previous consolidated financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB amended hedge accounting in connection with the planned reform of reference interest rates (WIBOR, LIBOR, etc.). These rates are often a hedged item, for example in the case of IRS hedges. The planned replacement of existing rates by new reference rates raised doubts as to whether the planned transaction is still highly probable, whether future hedged cash flows are still expected or whether there is an economic link between the hedged item and the hedging item. The amendment to the standards specified that it should be assumed in the estimates that there will be no change in reference rates.

The amendments are effective for annual periods beginning on or after January 1st 2020. As the Group does not apply hedge accounting, the uncertainty related to interest rate derivatives does not affect its interim condensed consolidated financial statements.

- Amendment to IFRS 16 *Leases*

In connection with the COVID-19 pandemic, the IASB has introduced a practical expedient whereby a lessee may elect not to assess whether a rent concession that meets the conditions set out in the standard is a 'lease modification' within the meaning of IFRS 16. The practical expedient is available for financial statements for annual periods beginning on or after June 1st 2020, but its earlier application has been permitted. The Group did not apply any the practical expedient to any of its leases as it did not receive any concessions from lessors.

4. Standards and interpretations which are effective as published by the IASB, but which have not been approved by the European Union

4.1. Early application of standards or interpretations

In these interim condensed consolidated financial statements, the Group has not opted for early application of any standard or interpretation.

4.2. Published standards and interpretations which were not yet effective for periods beginning on January 1st 2020 and their impact on the Group's financial statements

As at the date of these interim condensed consolidated financial statements, new or amended standards and interpretations effective for annual periods subsequent to 2020 were published. The list also includes amendments, standards and interpretations published but not yet endorsed by the European Union.

- New IFRS 17 *Insurance Contracts*

The new standard governs recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The standard replaces the existing IFRS 4.

The Group estimates that the new standard will not affect its consolidated financial statements because the Group does not conduct any insurance business.

The standard is effective for annual periods beginning on or after January 1st 2021.

- Amendment to IAS 1 *Presentation of Financial Statements*

The IAS Board clarified the rules for classifying liabilities to non-current or current liabilities primarily in two aspects:

  - it has been clarified that classification depends on the rights of the entity as at the reporting date,
  - management's intention to accelerate or delay payment of a liability is not taken into account.

The amendments are effective for annual periods beginning on or after January 1st 2022. As the Group already applies principles consistent with the amended standard, the changes will not affect its consolidated financial statements.

The Group intends to implement the above regulations at the time required by the individual standards or interpretations.

5. Significant judgements and assumptions

5.1. Professional judgement

The preparation of the Group's interim condensed consolidated financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Uncertainties related to these judgements and assumptions may result in material changes to carrying amounts of assets and liabilities in the future, because actual amounts may differ from the amounts estimated by the Management Board.

When applying the accounting policies, the Management Board of the parent made the following judgements which most significantly affect the presented carrying amounts of assets and liabilities.

Classification of leases where the Group is the lessee

Group companies are parties to lease contracts. They classify leases as either finance leases or operating leases based on the assessment of the extent to which risks and benefits incidental to ownership have been transferred from the lessor to the lessee. Such assessment is in each case based on the economic substance of the transaction.

Embedded derivatives

At the end of each reporting period, the Group companies' management makes an assessment to determine whether any contracts that have been signed have the economic characteristics and risks of an embedded derivative in a foreign currency which would be closely related to the economic characteristics and risks of the host contract.

Consortium agreements

Each time after signing a service contract to be executed as part of a consortium, the companies evaluate the nature of the contract to determine the method of accounting for contract revenue and expenses.

5.2. Uncertainty and changes in estimates

The Group made the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these interim consolidated financial statements. The assumptions and estimates may change in the future due to market developments or factors beyond the Group's control. In the nine months ended September 30th 2020 and as at that date, there were changes in estimates in significant areas of the Group's business.

Impairment of assets

The Group estimated the recoverable amount of non-financial non-current assets on the basis of cash flow projections. However, given the significant uncertainty as to the Group's ability to implement the Group's plans described in Note 2 to these interim condensed consolidated financial statements, which may be key to future forecasts, the recoverable amount may change.

Deferred tax asset

The Group prepared financial projections based on which it assessed the recoverable amount of deferred tax assets. The amount of deferred tax assets was determined at PLN 28,185 thousand. For details, see Note 11.3 these interim condensed consolidated financial statements.

(PLN thousand)

Provision for expected contract losses

The Group reviewed the order book and identified its key competences and competitive advantages on selected markets. As a result of the review, immediate steps were taken to suspend bidding for new contracts in unprofitable segments, and possible risks associated with the continued presence in those segments have been identified. The Group estimated the amount of provisions for the identified risks.

For details, see Note 10 to these interim condensed consolidated financial statements.

Provision for costs due to late contract completion

The Group recognises a provision for liquidated damages arising from late completion if the probability of being charged for late contract completion is significant and the delay is due to the fault of the Group companies as contractors. The amount of the provision reflects the amount of liquidated damages that may be charged for the delay. For information on provisions, see Note 17 to these interim condensed consolidated financial statements.

In these interim condensed consolidated financial statements, the Group also presented the effect of the Management Board's assumptions on the estimates of impairment losses (see Note 11.18), revenue from contracts with customers (see 10) and provisions (see Note 17).

6. Functional currency and presentation currency

The Polish złoty is the functional and presentation currency of these interim condensed consolidated financial statements.

Exchange rates used to determine carrying amounts:

	Sep 30 2020	*Dec 31 2019*	*Sep 30 2019*
USD	3.8658	3.7977	4.0000
EUR	4.5268	4.2585	4.3736
GBP	4.9560	4.9971	4.9313
CHF	4.1878	3.9213	4.0278
SEK	0.4296	0.4073	0.4077
TRY	0.4983	0.6380	0.7081

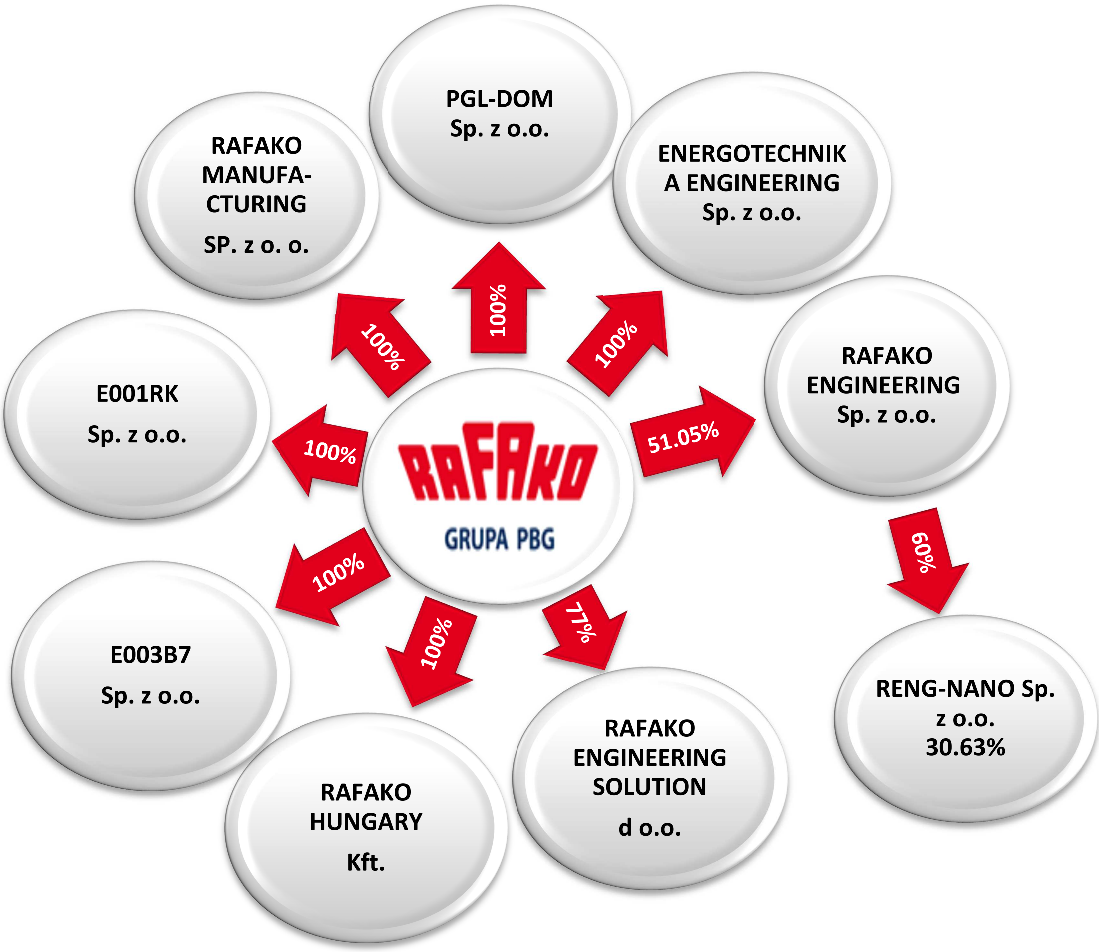
7. Scope of consolidated financial statements

These interim condensed consolidated financial statements comprise the financial statements of RAFAKO and the financial statements of its subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies. The consolidated financial statements are prepared in accordance with IAS 27/IFRS 10 *Consolidated and Separate Financial Statements*.

As at September 30th 2020, the RAFAKO Group comprised the parent and nine subsidiaries operating in the power construction, services and trade sectors.

As at September 30th 2020, the following subsidiaries (“Companies”, “Group Companies”) were included in the Group's consolidated financial statements:



The table below lists the consolidated companies of the RAFAKO Group.

Name and principal place of business	*Principal business (according to the Polish Classification of Business Activities (PKD))*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
RAFAKO S.A. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court in Gliwice, KRS 34143	-
PGL – DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court in Gliwice, KRS 58201	full
RAFAKO ENGINEERING Sp. z o.o. of Racibórz	Engineering activities and related technical consultancy	District Court in Gliwice, KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice	Engineering activities and related technical consultancy	District Court in Gliwice, KRS 417946	full
RAFAKO ENGINEERING SOLUTION d.o.o. Belgrade	Process design, including construction, industry, and environmental protection consultancy and supervision	Commercial Register Agency of the Republic of Serbia 20320524	full

(PLN thousand)

Name and principal place of business	*Principal business (according to the Polish Classification of Business Activities (PKD))*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industries	Registry Court of the Capital City of Budapest	full
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	District Court in Gliwice, KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of building projects, business consultancy and construction design, engineering and technology	District Court in Gliwice, KRS 486911	full
RENG-NANO Sp. z o.o.* Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	District Court of Gliwice KRS 663393	full
RAFAKO MANUFACTURING Sp. z o.o. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court of Gliwice KRS 739782	full

* Subsidiary of RAFAKO ENGINEERING Sp. z o.o., an indirect subsidiary of RAFAKO S.A.

As at September 30th 2020 and December 31st 2019, the Group's share in total voting rights in the subsidiaries was equal to the parent's holdings in the share capital of those entities.

8. Changes in the Group's structure

In the nine months ended September 30th 2020, there were a number of changes in the Group's structure.

On August 27th 2020, the Management Board of the parent adopted a resolution to start the employment restructuring at RAFAKO S.A.; for details, see Note 2.

As at the date of these financial statements, there was a change in the parent's organisational chart. Key changes consisted in the consolidation of service units (the Power Facilities Division, Environmental Protection Division), centralised sales and procurement functions, and elimination of the level of managing directors, which resulted in a leaner management structure. The changes adapted the parent's organisation to a lower number of employees, including through a significant reduction of managerial positions, which brought down operating expenses.

Furthermore, on September 28th 2020 RAFAKO S.A. w restrukturyzacji executed agreements for the sale of an organised part of business, operating as a branch of the Company, and for the sale of 100% of shares in RAFAKO EBUS Sp. z o.o., as described in Note 27 to these interim condensed consolidated financial statements.

On October 13th 2020, the subsidiary RAFAKO Engineering Sp. z o.o. of Racibórz submitted an application to the *Monitor Sądowy i Gospodarczy* official journal to announce the opening of a procedure to approve the arrangement made under the Restructuring Law of May 15th 2015 as amended by the Act of June 19th 2020 on subsidies for interest payments on bank loans granted to businesses affected by the COVID-19 situation and on simplified procedure to approve arrangements due to COVID-19 (Anti-Crisis Shield 4.0).

9. Seasonality and cyclical nature of the Group's operations

The operations of Group companies are not affected by seasonality or periodic fluctuations that could materially impact the Group's financial performance.

(PLN thousand)

10. Contract assets and liabilities

Contract assets and liabilities as at the reporting date are presented in the table below.

	Sep 30 2020	*Dec 31 2019*
Gross contract assets	166,418	271,202
Impairment of contract assets (-)	(1,148)	(1,415)
Contract assets	165,270	269,787
Contract liabilities, including prepayments	369,862	251,625

Contract assets are subject to IFRS 9 with respect to estimating impairment losses.

The table below presents the effects of accounting for contracts, including revenue and costs of running contracts recognised in accordance with IFRS 15 as at September 30th 2020 and as at December 31st 2019, as well as gross amount due to customers for contract work and gross amount due from customers for contract work.

	Sep 30 2020	*Dec 31 2019*
Revenue initially agreed in contract	7,780,373	7,971,771
Change in contract revenue	54,272	42,339
Aggregate contract revenue	**7,834,645**	**8,014,110**
Contract costs incurred as at reporting date	6,279,445	5,673,184
Costs expected to be incurred by contract completion date	1,493,501	2,125,054
Estimated aggregate contract costs	**7,772,946**	**7,798,238**
Estimated aggregate profit/(loss) on contracts, including:	**61,699**	**215,872**
profit	339,003	431,683
loss (-)	(277,304)	(215,810)

Assets (liabilities) arising under contracts are presented in the following table:

	Sep 30 2020	*Dec 31 2019*
Advance payments received as at reporting date	147,466	177,222
Advance payments that can be set off against amounts due from customers for contract work	21,344	29,987
Contract costs incurred as at reporting date	6,309,017	5,712,182
Cumulative profit as at reporting date (+)	258,217	303,598
Cumulative loss as at reporting date (+)	(277,304)	(215,810)
Cumulative contract revenue as at reporting date	6,289,930	5,799,970
Amounts invoiced as at reporting date (progress billings)	6,345,908	5,605,335
Settlement of contracts (balance) as at reporting date, including:	**(55,978)**	**194,635**
Contract assets less advance payments that can be offset	166,418	271,202
Contract liabilities	243,740	106,554

(PLN thousand)

The key reasons for changes in contract assets and liabilities in the reporting period are presented in the tables below.

Contract assets:

	Sep 30 2020	*Dec 31 2019*
Contract assets at beginning of period	269,788	381,352
Revenue charged in reporting period to contract assets	164,569	121,220
Total revenue restatements charged to contract assets	(32,016)	50,298
Changes in impairment losses on contract assets	(140)	325
Reclassification to trade receivables (-)	(236,931)	(283,407)
Contract assets at end of period	**165,270**	**269,788**

Contract liabilities:

	Sep 30 2020	*Dec 31 2019*
Contract liabilities at beginning of period	251,625	173,499
Performance obligations recognised in reporting period as contract liabilities	161,690	59,286
Change in advance payments	(18,949)	42,656
Total revenue restatements charged to contract liabilities	(931)	1,917
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(23,573)	(25,733)
Contract liabilities at end of period	**369,862**	**251,625**

Significant changes in the amount of contract assets and liabilities resulted mainly from changes in estimates of contract revenue and costs, driven chiefly by changes in cost estimates for the CHP contract in Vilnius and for the Jaworzno 910 MW contract; for details, see Notes 10.1.1 and 10.1.2 to these interim condensed consolidated financial statements. The decrease in the amount of contract assets was also attributable to invoiced contract sales, mainly under the contract for delivery and installation of a catalytic flue gas denitrification unit at APs–1650 steam generators No. 9 and No. 10 and upgrade of electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. in Kozienice. The increase in the amount of contract liabilities was attributable to invoiced sales under the contract for the construction of two steam generators on the Lombok Island in Indonesia.

Disclosures concerning capitalised costs of obtaining and performing contracts are presented by the Company under 'Short-term prepayments and accrued income'.

10.1. Key contracts

10.1.1. Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The final division of work within the consortium was agreed on August 4th 2013 based on the amendments made to the consortium agreement, which related to RAFAKO S.A. taking over 99.99% of the project deliveries (with 0.01% remaining for Mostostal Warszawa) and changing the distribution of consideration due to the consortium members to reflect the members' actual shares in the project. The contract for the construction of the Jaworzno III power generation unit was concluded on April 17th 2014. The current contract price (after execution of Annex 8) is PLN 4,547m (VAT exclusive). It is the largest contract executed by RAFAKO S.A. to date. Following completion of the trial run, which confirmed that the unit met the requirements set out in the contract, on November 13th 2020 the unit entered commercial operation. The unit operates within the Polish power system. As a result, the warranty period commenced, during which final measurements of the guaranteed technical parameters are to be performed within 12 months from placing the unit in service.

During the warranty period, the employer will receive the as-built documentation and the invoice for the last milestone, in line with the schedule of works and expenditures.

On December 19th 2019, Annex 7 to the contract was signed. The parties agreed that certain additional tasks will be performed under the contract. These include delivery of an additional layer of catalyst and an additive dispensing system for the flue gas desulfurisation unit to reduce mercury emissions as well as extension of the fuel mix to enable combustion of a wider range of coal types. After the generating unit is placed in service, the consortium will carry out optimisation tasks to check whether the unit meets the changed technical parameters.

The implementation of these changes will have a positive effect on the technical and environmental parameters of the unit and will help to optimise its costs during operation. The expanded scope of work will reduce emissions of noxious substances from the unit, and the extended fuel mix will allow the TAURON Group to achieve greater flexibility in coal procurement. Under the annex, the net price specified in the Contract was increased by PLN 52,308,355.89, and the placement-in-service report is to be signed by January 31st 2020.

During the final testing of the Unit, a number of objective events occurred which affected the date of delivery of the Unit to the Employer. Following the unit's being taken offline due to extreme weather conditions, it was found that an unforeseeable event had occurred, involving damage to a component of the steam generator. On May 4th 2020, RAFAKO S.A., E003B7 Sp. z o.o. and the employer entered into an agreement to work together to identify the causes and remove the consequences of the Event to enable continuation of work to deliver the unit to the Employer.

On June 10th 2020, Annex 8 to the Master Contract was signed, setting out the rules for the performance of additional works by the Contractor and addressing other key issues, i.e. a PLN 9.9m (VAT exclusive) increase in the contract price, taking into account additional work, a change in the commissioning deadline for the unit, an update of the time and payment schedule reflecting changes in the delivery dates for individual milestones and transfer of ownership rights to the turbine island.

The new payment schedule improved the Company's liquidity, and enabled the Company to pay its subcontractors for the additional work under the contract.

On November 13th 2020, a trial run was completed, confirming that the unit met the requirements set out in the contract, whereupon the parties performed acceptance of the unit, which entered commercial operation. The unit operates within the Polish power system.

On the same day, Nowe Jaworzno Grupa TAURON Sp. z o.o., E003B7 sp. z o.o. (a wholly-owned subsidiary of RAFAKO S.A. w restrukturyzacji) and RAFAKO S.A. w restrukturyzacji, acting with approval from the supervisor of the Company's arrangement made under the simplified restructuring procedure, signed a settlement agreement resulting from mediation conducted before the Arbitration Court at the General Counsel to the Republic of Poland, with the following key provisions:

1. The Parties, that is RAFAKO S.A. w restrukturyzacji and Nowe Jaworzno Grupa TAURON Sp. z o.o. waived equivalent mutual claims which arose before the settlement agreement date in connection with performance of the contract, except for the Company's claims for the work performed in accordance with the contract, NJGT's warranty or guarantee claims, and recourse claims against RAFAKO S.A. w restrukturyzacji for the payment of claims of lower-tier subcontractors.
2. RAFAKO S.A. w restrukturyzacji will extend the technical guarantee for the high-pressure section of the boiler by six (6) months (to 36 months) and will grant licences to use computer software not covered by the contract. The Company will perform certain additional work, including work to optimise the unit's operation so that its minimum technical capacity is reduced from 40% to 37%.

The settlement agreement will take effect upon fulfilment of certain conditions precedent, including the following key conditions:

1. execution by the parent and Nowe Jaworzno Grupa TAURON Sp. z o.o. of a handover-for-operation certificate for the unit at the Jaworzno Power Plant by November 15th 2020 (the condition has been met),
2. RAFAKO S.A. w restrukturyzacji providing an agreement in the form of a commitment letter with financial institutions, i.e. Powszechny Zakład Ubezpieczeń S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Gospodarstwa Krajowego, concerning the method of raising funds necessary for the completion of proper performance of the contract (the condition has been met).

The settlement agreement will be filed with a competent common court for approval. Once approved by a final court decision, the settlement agreement will have the legal effect of a court settlement.

Furthermore, on November 13th 2020 Nowe Jaworzno TAURON Sp. z o.o. and RAFAKO S.A. w restrukturyzacji, acting with approval from the supervisor of the Company's arrangement made under the simplified restructuring procedure, entered into Annex 9 to the contract, which sanctions the arrangements made by the parties in the settlement agreement regarding RAFAKO S.A. w restrukturyzacji's additional non-monetary obligations, including obligation performance dates and related payment due dates.

Accounting for the Jaworzno Project:

For the purposes of the project, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO S.A. subcontracted approximately 88.7% of the Project's scope of work; the remaining 11.3% is performed by RAFAKO S.A. itself (approximately PLN 510.7m); including the design of the boiler island and delivery of boiler pressure components and a particle removal unit, which were delivered mainly in 2015-2017.

For the purposes of the project, RAFAKO S.A. and E003B7 Sp. z o.o. signed agreements with financial institutions, under which the companies secured bank guarantees and insurance bonds required to deliver the project. The total value of the bonds and guarantees is PLN 587.5m. At the same time, RAFAKO S.A.'s and E003B7 Sp. z o.o.'s assets were pledged as security for these instruments. Given the arrangements with the guarantee providers, RAFAKO S.A. does not plan for E003B7 sp. z o.o. to pay any dividend before the expiry of the guarantee agreements as this could result in an adverse response from the guarantee providers.

In the consolidated financial statements, RAFAKO S.A. sets off project-related income, expenses and settlements between RAFAKO and the special purpose vehicle. In its separate financial statements, the Company does not recognise revenue and expenses related to the portion of work performed by E003B7 Sp. z o.o. − they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group.

RAFAKO S.A., as the consortium leader, issues invoices, directly to the employer, for the entire scope of work; payments are made directly to the special purpose vehicle as well as key subcontractors and sub-suppliers. Payments for the work performed by RAFAKO S.A. are made by the special purpose vehicle.

Change in estimates for the Jaworzno Project

The RAFAKO Group's net result on the Jaworzno Contract for the nine months ended September 30th 2020 was a loss of PLN 87.8m.

10.1.2. Vilnius Project

On September 29th 2016, the parent entered into a contract with JSC VILNIAUS KOGENERACINĖ JĖGAINĖ for the construction of a biomass-fired co-generation unit comprising fluidised bed boilers, biomass storage and feeding systems, and a flue gas treatment system. The price of the contract and annexes thereto is EUR 149m (exclusive of VAT). The parent estimated the amount of its claims for extraordinary price increases during the Vilnius Project, works performed which, in the opinion of the parent, were beyond the original scope of the project, and the delay in project completion not attributable to RAFAKO S.A. w restrukturyzacji.

On July 10th 2020, the parent filed a request for arbitration with the Stockholm Chamber of Commerce concerning recognition by the employer of RAFAKO's claims for additional time and reimbursement of additional costs. The employer submitted a preliminary response to the request. The parties expect to continue to process the matter.

For details, see Note 22 to these interim condensed consolidated financial statements.

On September 24th 2020, following the identification of contract risks and the possible need to incur additional costs under the Vilnius project, the Management Board of the parent decided to recognise a PLN 95.8m provision.

The potential additional contract costs estimated by RAFAKO S.A. w restrukturyzacji result primarily from the project's time and cost overruns caused by the contracting of additional works as well as claims of subcontractors which were all beyond the parent's control.

The risk of a potential decrease in contract revenue was estimated taking into account exclusion from the scope of deliveries of the unit for unloading biomass from rail cars.

On October 5th 2020, acting pursuant to the contract, RAFAKO S.A. w restrukturyzacji (in restructuring) submitted a notice of impossibility / termination notifying the employer of:

1) inability to perform the contract due to the fact that the task the Company had committed itself to perform became different from that provided for in the contract or, alternatively
2) withdrawal from the contract due to lack of cooperation on the part of the employer and the employer's failure to perform its contractual obligations, in particular lack of coordination between projects LOT1 and LOT2,
3) withdrawal from the contract due to the employer's failure to issue on time interim payment certificates for completed milestones.

This decision was necessary given the substantial risk and costs of completing the contract in light of the circumstances described above. The decision did not require any additional provisions or impairment losses, as – to the best of the Company's knowledge based on prudent estimates – those recognised as at June 30th 2020 already reflected the risks associated with the decision.

The effect of the Vilnius contract on the Group's profit or loss for the nine months ended September 30th 2020 was negative at PLN 105.3m

11. Types and amounts of items with a significant impact on assets, liabilities, equity, financial performance and cash flows

11.1. Revenue and operating segments

In the nine months ended September 30th 2020, there were no changes in the Group's accounting policies with respect to the identification of operating segments and the rules of measuring revenue, profit or loss, and assets of the segments which were presented in the Group's most recent full-year consolidated financial statements.

(PLN thousand)

11.1.1. Revenue from sale of goods and services

	9 months ended Sep 30 2020	*12 months ended Dec 31 2019*	*9 months ended Sep 30 2019*
Net revenue from sale of products	83,538	73,788	55,487
Net revenue from sale of services	698,091	1,167,379	758,668
including: from related entities	735	2,328	1,881
Net revenue from sale of other goods	3,087	3,822	2,659
Exchange differences on trade receivables	9,189	(1,084)	350
Net revenue from sale of goods and services, total	**793,905**	**1,243,905**	**817,164**
including: from related entities	735	2,328	1,881

In the nine months ended September 30th 2020, the Group reported revenue of PLN 793,905 thousand, PLN 23,259 thousand less year on year. The decrease was due mainly to lower revenue from the Jaworzno 910 MW project. The Group's increased involvement in the contract to construct the Kędzierzyn Compressor Station for Operator Gazociągów Przemysłowych GAZ-SYSTEM S.A. and the steam-generator project on the Lombok Island in Indonesia had a positive effect on the amount of revenue for the nine months ended September 30th 2020.

11.1.2. Revenue from sale of materials

	9 months ended Sep 30 2020	*12 months ended Dec 31 2019*	*9 months ended Sep 30 2019*
Revenue from sale of merchandise and materials	1,615	999	580
including: from related entities	–	–	–
Net revenue from sale of merchandise and materials, total	**1,615**	**999**	**580**
including: from related entities	–	–	–

11.1.3. Revenue by geography

	9 months ended Sep 30 2020	*12 months ended Dec 31 2019*	*9 months ended Sep 30 2019*
Revenue from sales to domestic customers	575,646	784,006	483,927
including: from related entities	735	2,328	1,881
Revenue from sales to foreign customers	219,874	460,898	333,817
including: from related entities	–	–	–
Net sales revenue, total	**795,520**	**1,244,904**	**817,744**
including: from related entities	735	2,328	1881

The Group's core customer group comprises foreign and domestic suppliers of power engineering facilities as well as domestic and foreign commercial and industrial power plants.

Revenue from sales to related entities is presented in detail in Note 25 to these consolidated financial statements.

(PLN thousand)

The following table presents the trading partners accounting for more than 10% of total revenue each:

Trading partner	*% of total sales*	*9 months ended Sep 30 2020*
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	19.4%	154,069
PT PLN (Persero)	15.7%	124,402
Nowe Jaworzno Grupa TAURON Sp. z o.o.	12.1%	96,024
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	12.7%	101,110
Other	40.1%	318,300
Total	**100%**	**793,905**

11.1.4. Operating segments

Management of the Group's business is based on separate segments, corresponding to the types of products and services offered. Each segment is a part of the Group which earns revenue and incurs costs, in accordance with IFRS 8 *Operating Segments*.

The Group identifies the following operating segments:

Operating segments	Segment companies
Power and environmental protection facilities	RAFAKO S.A. E001RK Sp. z o.o. E003B7 Sp. z o.o. RAFAKO MANUFACTURING Sp. z o.o.
Products for oil and gas sector	RAFAKO S.A. RAFAKO Engineering Sp. z o.o.
Other segments	PGL – DOM Sp. z o.o. RAFAKO Engineering Sp. z o.o. ENERGOTECHNIKA ENGINEERING Sp. z o. o. RAFAKO ENGINEERING SOLUTION doo. RAFAKO Hungary Kft. RENG – NANO Sp. z o.o. RAFAKO EBUS Sp. z o.o.

The power and environmental protection facilities segment offers power generating units, stoker-fired boilers, pulverised fuel boilers, stationary and circulating fluidised bed boilers; heat recovery steam generators; systems and facilities ancillary to power boilers; wet, semi-dry and dry flue gas desulfurisation systems; flue gas deNOx technologies; particles removal equipment, including electrostatic precipitators and bag filters, as well as industrial and municipal waste incineration systems. The Group is a supplier to both commercial and industrial power plants.

The ‘Products for oil and gas sector’ segment offers surface systems for oil and gas production, LNG unloading, regasification and storage facilities, oil and gas pipelines, fuel tanks, as well as technical and sanitary installations.

Other segments are made up of those segments which do not meet the quantitative thresholds set out in IFRS 8, including property management and design services provided by other Group companies.

The Management Board monitors the performance of each of the segments separately to make resource allocation decisions and to evaluate results of the allocation as well as results of the segments' operations. Operating profit/(loss) is used as the key metric to evaluate results of the operations.

(PLN thousand)

For the nine months ended September 30th 2020 or as at Sep 30 2020	*Power and environmental protection facilities*	*Products for oil and gas sector*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	664,734	116,482	19,258	800,474	(4,954)	795,520
Inter-segment sales	4,099	–	17,160	21,259	(21,259)	–
Total segment revenue	668,833	116,482	36,418	821,733	(26,213)	795,520
Cost of products and materials sold	(840,658)	(137,012)	(32,312)	(1,009,982)	25,054	(984,928)
Total						
Gross profit/(loss)	(171,825)	(20,530)	4,106	(188,249)	(1,159)	(189,408)
Other income/(expenses)	(79,530)	(706)	(11,112)	(91,348)	29,108	(62,240)
Operating profit/(loss)	(251,355)	(21,236)	(7,006)	(279,597)	27,949	(251,648)
Finance income/(costs)	(3,730)	14	(231)	(3,947)	1,154	(2,793)
Profit/(loss) before tax	(255,085)	(21,222)	(7,237)	(283,544)	29,103	(254,441)
Income tax expense	(13,775)	–	(2,496)	(16,271)	1,138	(15,133)
Segment's net profit/(loss)	(268,860)	(21,222)	(9,733)	(299,815)	30,241	(269,574)
Results						
Depreciation and amortisation	8,947	295	1,889	11,131	102	11,233
Share of profit of associates and joint ventures	–	–	–	–	–	–
Assets and liabilities as at Sep 30 2020						
Segment assets	872,943	118,005	63,324	1,054,272	(69,349)	984,923
Segment liabilities	1,102,512	64,179	40,157	1,206,848	(66,338)	1,140,510
Other information						
Investments in associates and joint ventures	–	–	–	–	–	–
Capital expenditure	1,924	230	1,374	3,528		3,528

(PLN thousand)

For the nine months ended September 30th 2019 or as at Sep 30 2019	*Power and environmental protection facilities*	*Products for oil and gas sector*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	709,413	102,573	12,283	824,269	(6,525)	817,744
Inter-segment sales	643	–	36,961	37,604	(37,604)	–
Total segment revenue	710,056	102,573	49,244	861,873	(44,129)	817,744
Cost of products and materials sold	(867,733)	(99,593)	(41,128)	(1,008,454)	43,605	(964,849)
Total						
Gross profit/(loss)	(157,677)	2,980	8,116	(146,581)	(524)	(147,105)
Other income/(expenses)	(50,550)	(5,693)	(6,928)	(63,171)	(3,747)	(66,918)
Operating profit/(loss)	(208,227)	(2,713)	1,188	(209,752)	(4,271)	(214,023)
Finance income/(costs)	576	8	(677)	(93)	(61)	(154)
Profit/(loss) before tax	(207,651)	(2,705)	511	(209,845)	(4,332)	(214,177)
Income tax expense	14,057	–	(232)	13,825	823	14,648
Segment's net profit/(loss)	(193,594)	(2,705)	279	(196,020)	(3,509)	(199,529)
Results						
Depreciation and amortisation	10,867	163	2,192	13,222	92	13,314
Share of profit of associates and joint ventures	–	–	–	–	–	–
Assets and liabilities as at Sep 30 2019						
Segment assets	1,216,592	91,605	95,168	1,403,365	(119,542)	1,283,823
Segment liabilities	883,614	43,358	37,579	964,551	(78,625)	885,926
Other information						
Investments in associates and joint ventures	–	–	–	–	–	–
Capital expenditure	1,904	344	717	2,965	–	2,965

(PLN thousand)

For the nine months ended September 30th 2020	*Power and environmental protection facilities*	*Products for oil and gas sector*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Region						
Poland	403,816	116,251	30,935	551,002	(25,904)	525,098
European Union	108,740	231	4,583	113,554	–	113,554
Other countries	156,277	–	900	157,177	(309)	156,868
Total segment revenue	668,833	116,482	36,418	821,733	(26,213)	795,520
Term of the contract						
Short-term contracts	424,580	116,482	33,530	574,592	(26,213)	548,379
Long-term contracts	244,253	–	2,888	247,141	–	247,141
Total segment revenue	668,833	116,482	36,418	821,733	(26,213)	795,520

(PLN thousand)

The Group's principal business comprises the manufacture of the following product groups:

Product group name	*9 months ended Sep 30 2020*	*12 months ended Dec 31 2019*	*9 months ended Sep 30 2019*
Power generation units and steam generators	208,009	348,137	247,587
Revenue under the Jaworzno 910 MW project	96,024	285,272	144,764
Air pollution control systems	223,170	252,639	152,134
Power equipment, machinery and components, and related services	119,726	207,301	163,312
Services and products for oil and gas sector	112,578	117,825	93,078
Construction	24,870	–	–
Other revenue	11,143	33,730	16,869
Total	**795,520**	**1,244,904**	**817,744**

11.2. Selling expenses, operating income and expenses and finance income and costs

In the nine months ended September 30th 2020, cost of sales was PLN 984,928 thousand. As a combined effect of the Group's revenue and cost of sales, gross loss reached PLN 189,408 thousand. The reason for the loss reported in the nine months ended September 30th 2020 was the revision of cost and revenue estimates related to two significant contracts:

- Construction of a biofuel-fired co-generation unit consisting of fluidised bed boilers, biofuel storage and feeder systems, and a flue gas treatment system in Vilnius, Lithuania (effect on the RAFAKO Group's consolidated result for the nine months ended September 30th 2020: PLN -105.5m);
- Construction of the Jaworzno 910 MW power generation unit (effect on the Group's consolidated result for the nine months ended September 30th 2020: PLN -87.8m).

In the reporting period, selling expenses of PLN 11,091 thousand disclosed in the statement of profit or loss comprised costs of bid preparation as well as costs of PR and marketing activities.

The Group's other income for the nine months ended September 30th 2020 was driven mainly by the PLN 13,409 thousand gain on the sale of an organised part of business operating as the parent's branch in Solec Kujawski. Also contributing to other income were proceeds from liquidated damages of PLN 8,136 thousand, gain on disposal of non-financial non-current assets of PLN 2,189 thousand, and proceeds from compensation of PLN 1,699 thousand.

The Group's other expenses for the nine months to September 30th 2020 chiefly included impairment losses on assets of PLN 32,745 thousand, including:

- an impairment loss on other receivables, including advance payments of PLN 20,714 thousand;
- an impairment loss on trade receivables of PLN 7,640 thousand;
- impairment losses on property, plant and equipment and intangible assets, including goodwill, of PLN 4,391 thousand.

Other expenses for the nine months ended September 30th 2020 also included a PLN 3,343 thousand provision for joint and several liability.

In the nine months ended September 30th 2020, the Group's finance income included mainly foreign exchange gains of PLN 2,657 thousand and interest earned on financial instruments of PLN 384 thousand (September 30th 2019: PLN 1,272 thousand).

Finance costs in the period chiefly included interest expense on financial instruments of PLN 4,010 thousand (September 30th 2019: PLN 3,554 thousand) and discount on long-term receivables of PLN 1,138 thousand.

(PLN thousand)

11.3. Income tax

Income tax expense

Main components of income tax expense in the consolidated statement of comprehensive income:

Continuing operations	*9 months ended Sep 30 2020*	*9 months ended Sep 30 2019*
Consolidated statement of profit or loss		
Current tax	(531)	(1,182)
Current income tax expense	(709)	(1,182)
Adjustments to current income tax from previous years	178	–
Deferred tax	(14,602)	15,830
Related to recognition and reversal of temporary differences	50,842	15,830
Impairment loss on deferred tax	(65,444)	–
Income tax expense in the consolidated statement of profit or loss	**(15,133)**	**14,648**

Continuing operations	*9 months ended Sep 30 2020*	*9 months ended Sep 30 2019*
Deferred tax on other comprehensive income	115	50
Related to recognition and reversal of temporary differences	115	50
Adjustments to current income tax from previous years	–	–
Income tax expense recognised in other comprehensive income	**115**	**50**

Deferred income tax calculated as at Sep 30 2020

As at September 30th 2020, the Group analysed the recoverable amount of the deferred tax asset based on forecasts and budgets prepared for subsequent years and recognised a PLN 28,185 thousand impairment loss on deferred tax assets.

(PLN thousand)

Deferred income tax calculated as at September 30th 2020 relates to:

	Statement of financial position		*Statement of comprehensive income*	
	Sep 30 2020	*Dec 31 2019*	*Sep 30 2020*	*Sep 30 2019*
- investment reliefs	(1)	(1)	–	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(10,999)	(14,183)	3,184	(242)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,421	1,031	390	(587)
- difference between tax base and carrying amount of loans and receivables	8,130	6,610	1,521	669
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	4,283	(41,302)	45,585	(12,260)
- difference between tax base and carrying amount of inventories	2,417	2,275	142	(43)
- provisions	24,769	22,752	2,017	2,050
– difference between tax base and carrying amount of liabilities, provisions, and accruals and deferrals relating to accounting for contracts	73,359	74,208	(849)	40,480
- tax asset related to tax loss	223	223	–	(16,401)
- adjustment to costs of unpaid invoices	3,476	3,535	(60)	(263)
- other	7,985	8,957	(972)	2,476
Deferred tax expense/benefit disclosed in the statement of profit or loss			50,842	15,830
Deferred tax expense/benefit disclosed in other comprehensive income			115	50
Impairment loss on deferred tax	(86,878)	(21,433)	(65,445)	–
Net deferred tax asset/(liability) including:			**(14,488)**	**15,880**
Net deferred tax asset/(liability), including:	**28,185**	**42,672**		
Deferred tax assets	28,185	42,672		
Deferred tax liability	–	–		

11.4. Significant items disclosed in the statement of cash flows

The PLN 195,101 thousand decrease in receivables disclosed in the statement of cash flows for the nine months ended September 30th 2020 resulted mainly from:

- PLN 201,663 thousand decrease in trade receivables,
- PLN (2,404) thousand increase in receivables from the state budget (including VAT),
- PLN 1,272 thousand decrease in advance payments made,
- PLN 4,724 thousand decrease in security deposits receivable,
- PLN (10,154) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the nine months ended September 30th 2020, see Note 11.15.

(PLN thousand)

The PLN 89,016 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN (66,075) thousand decrease in trade payables,
- PLN (19,543) thousand decrease in taxes and other duties payable,
- PLN 9,646 thousand increase in employee benefit obligations and provisions,
- PLN (606) thousand change in actuarial gains/(losses),
- PLN (12,438) thousand increase in other liabilities.

The PLN 222,754 thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows resulted primarily from:

- PLN 104,517 thousand decrease in gross amounts due from customers for contract work and accruals and deferrals,
- PLN 118,237 thousand increase in gross amounts due for contract work,

The PLN 19,947 thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 23,362 thousand increase in the provision for warranty repairs,
- PLN (10,061) thousand decrease in the provision for expected contract losses,
- PLN 6,153 thousand change in accruals and deferrals,
- PLN 493 thousand change in other provisions.

The cash flows of PLN 2,457 thousand relating to purchase of property, plant and equipment and intangible assets included PLN 1,641 thousand incurred to purchase property, plant and equipment, and PLN 816 thousand incurred to purchase intangible assets.

Cash flows from financing activities were mainly affected by a PLN 75,690 thousand decrease in debt outstanding under the overdraft facility and working capital facility advanced by PKO BP S.A. to the parent.

11.5. Goodwill and intangible assets

Sep 30 2020	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2019	**6,704**	**6,592**	**52**	**196**	**13,544**
Acquisitions	481	87	–	1	569
Liquidation/sale	–	(181)	–	(196)	(377)
Amortisation for the year	–	(956)	(38)	–	(994)
Impairment loss for period	(3,214)	–	–	–	(3,214)
As at Sep 30 2020	**3,971**	**5,542**	**14**	**1**	**9,528**

* Intangible assets pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.19.2

(PLN thousand)

Dec 31 2019	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2019	**9,166**	**7,871**	**109**	**28**	**17,173**
Transfers from intangible assets under development	–	136	–	(136)	–
Acquisitions	–	76	–	304	380
Amortisation for the year	–	(1,491)	(57)	–	(1,548)
Impairment loss for period	(2,461)	–	–	–	(2,461)
As at Dec 31 2019	**6,704**	**6,592**	**52**	**196**	**13,544**

Sep 30 2019	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2019	**9,166**	**7,870**	**109**	**28**	**17,173**
Acquisitions	–	38	–	108	146
Transfers from intangible assets under development	–	136	–	(136)	–
Amortisation for the year	–	(1,098)	(44)	–	(1,142)
As at Sep 30 2019	**9,166**	**6,946**	**65**	**–**	**16,177**

In the nine months ended September 30th 2020, goodwill changed due to the following transactions:

- recognition by the parent of an impairment loss on goodwill of PLN 376 thousand;
- recognition by a subsidiary of an impairment loss on goodwill of PLN 2,838 thousand;
- acquisition on August 3rd 2020 by the subsidiary RAFAKO Engineering Sp. z o.o. of an organised part of business from PBG S.A. w restrukturyzacji, including credentials, documentation concerning contract acquisition and performance, certificates and movables; on accounting for the transaction, the company recognised goodwill of PLN 481 thousand.

As at September 30th 2020, the amount of goodwill was PLN 3,971 thousand.

(PLN thousand)

11.6. Property, plant and equipment

For the nine months ended September 30th 2020	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2020	**23,636**	**81,096**	**37,274**	**2,732**	**647**	**1,977**	**147,362**
Transfers from property, plant and equipment under construction	–	2,268	64	–	–	(2,332)	–
Acquisitions	–	–	10	657	72	796	1,535
Liquidation/sale	(197)	(403)	(282)	(209)	(76)	(244)	(1,411)
Exchange differences on translating foreign operations	–	–	1	2	(10)	–	(7)
Depreciation for period	–	(2,146)	(3,318)	(331)	(205)	–	(6,000)
Impairment loss for period	(187)	(918)	(5)	–		–	(1,110)
Other, including reclassification to/from other asset category	–	–	30	182	(29)	–	183
Net carrying amount as at Sep 30 2020*	**23,252**	**79,897**	**33,774**	**3,033**	**399**	**197**	**140,552**

*Tangible assets pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.19.1

For the 12 months ended December 31st 2019	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2019	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**
Adjustment to opening balance following implementation of IFRS 16	–	–	(1,340)	(5,134)	(324)	–	(6,798)
Net carrying amount as at Jan 1 2019	**23,703**	**84,743**	**43,255**	**2,086**	**469**	**196**	**154,452**
Transfers from property, plant and equipment under construction	–	96	246	–	–	(342)	–
Acquisitions	–	–	80	98	528	2,123	2,829
Lease agreements	–	–	–	–	–	–	–
Liquidation/sale	(65)	(695)	(177)	(98)	(69)	–	(1,104)

(PLN thousand)

Exchange differences on translating foreign operations	–	–	–	–	(10)	–	(10)
Depreciation for period	–	(2,990)	(6,216)	(1,073)	(271)	–	(10,550)
Impairment loss for period	–	–	33	96	–	–	129
Other, including reclassification of property, plant and equipment to/from assets held for sale	(2)	(58)	53	1,623	–	–	1,616
Net carrying amount as at Dec 31 2019	**23,636**	**81,096**	**37,274**	**2,732**	**647**	**1,977**	**147,362**

For the nine months ended September 30th 2019	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2019	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**
Adjustment to opening balance following implementation of IFRS 16	–	–	(1,340)	(5,134)	(324)	–	(6,798)
Net carrying amount as at Jan 1 2019	**23,703**	**84,743**	**43,255**	**2,086**	**469**	**196**	**154,452**
Transfers from property, plant and equipment under construction	–	96	203	–	35	(334)	–
Acquisitions	–	–	46	28	261	333	668
Liquidation/sale	(64)	(966)	(172)	(88)	(74)	–	(1,364)
Exchange differences on translating foreign operations	–	–	1	1	(5)	–	(3)
Depreciation for period	–	(2,253)	(4,759)	(881)	(200)	–	(8,093)
Impairment loss for period	–	285	66	96	–	–	447
Other, including reclassification of property, plant and equipment to/from assets held for sale	(1)	(40)	77	1,290	–	–	1,326
Net carrying amount as at Sep 30 2019*	**23,638**	**81,865**	**38,717**	**2,532**	**486**	**195**	**147,433**

(PLN thousand)

11.7. Purchase and sale of property, plant and equipment and intangible assets

	9 months ended Sep 30 2020	*9 months ended Sep 30 2019*
Purchase of property, plant and equipment and intangible assets*	3,528	2,965
Proceeds from sale of property, plant and equipment and intangible assets	4,486	1,663

* Capital expenditure incurred in the period to purchase property, plant and equipment, as shown in the table of changes in property, plant and equipment, and capital expenditure incurred to purchase intangible assets.

The Group's capital expenditure on property, plant and equipment involved chiefly expenditure on purchases of production plant and equipment, vehicles and computer hardware. The expenditure was financed with internally generated funds.

11.8. Right-of-use assets

The carrying amount of leased assets is recognised in the statement of financial position under 'Right-of-use assets' and is presented as follows:

Class of underlying assets	*Carrying amount of right-of-use assets Sep 30 2020*	*Depreciation of right-of-use assets (cumulative) Sep 30 2020*	*Depreciation in the reporting period Jan 1–Sep 30 2020*
Land	49	204	89
Buildings and structures	1,848	3,135	1,566
Plant and equipment	3,634	3,727	1,685
Vehicles	2,744	1,685	781
Other	14	58	67
Intangible assets	96	17	11
Total	**8,385**	**8,826**	**4,199**

Class of underlying assets	*Carrying amount of right-of-use assets Dec 31 2019*	*Depreciation of right-of-use assets (cumulative) Dec 31 2019*	*Depreciation in the reporting period Jan 1–Dec 31 2019*
Land	134	115	115
Buildings and structures	6,442	1,751	1,779
Plant and equipment	4,995	2,385	2,081
Vehicles	4,007	2,623	1,304
Other	107	511	217
Intangible assets	108	6	6
Total	**15,793**	**7,391**	**5,502**

In 2020, the most significant lease contracts were:

- lease of the CO_2 capture unit with a carrying amount of PLN 5,037 thousand as at the date of recognition of the lease contract. The contract was executed on March 8th 2018 for two years, after which time the Group has the right to purchase the leased asset. The Group is required to insure the lease asset and maintain it in the working condition described in the contract;

(PLN thousand)

- lease of office space with social amenities, parking space, production hall and storage site, with a carrying amount of PLN 6,488 thousand as at the reporting date. The contract was concluded on March 30th 2018 for a period of 10 years, with no purchase option. The Group is required to insure the lease asset and maintain it in the working condition described in the contract.

The Group's leasing activities are summarised in the table below:

Class of underlying assets	*Number of rights of use*	*Remaining lease term (years) from*	*to*	*Average remaining lease term (years)*	*Number of contracts with extension option*	*Number of contracts with purchase option*	*Number of contracts with variable rate-indexed payments*	*Number of contracts with early termination option*
Land	1	0.5	0.5	0.5	1	–	–	1
Buildings and structures	16	0.1	7.5	1.1	15	–	–	13
Plant and equipment	21	0.1	4.1	1.2	2	17	4	5
Vehicles	69	0.1	3	1.9	3	68	–	43
Other	4	0.1	0.6	0.4	–	4	–	–
Intangible assets	1	4.3	4.3	4.3	1	–	–	1

In 2020, the Group changed its estimates of the duration of active lease contracts for the lease of residential units. The Group estimated that it would exercise the extension options, which it had not previously foreseen. As a result of the change, the amount of lease liabilities and right-of-use assets increased by PLN 905 thousand. The economic useful lives of those assets are consistent with the lease terms, ranging from 12 months to 10 years. The Group depreciates leased assets with the straight-line method.

The following table presents future minimum lease payments as at the reporting date:

	Sep 30 2020		*Dec 31 2019*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	4,622	4,477	5,945	5,490
from 1 to 5 years	2,740	2,623	6,146	5,187
Over 5 years	565	552	2,604	2,402
Total minimum lease payments	**7,927**	**7,652**	**14,695**	**13,079**
Less finance costs	(275)	–	(1,616)	–
Present value of minimum lease payments, including:	**7,652**	**7,652**	**13,079**	**13,079**
short-term	4,477	4,477	5,490	5,490
long-term	3,175	3,175	7,589	7,589

In the nine months ended September 30th 2020, interest expense on the lease contracts was PLN 287 thousand.

The Group does not recognise liabilities under short-term leases or leases of low-value underlying assets. Contingent lease payments are not recognised in lease liabilities.

In the nine months ended September 30th 2020, the related costs were as follows:

(PLN thousand)

	Sep 30 2019
Short-term leases	7,812
Leases of low-value assets	–
Total	**7,812**

In the reporting period, no expenses were recognised on account of contingent lease payments and no sublease payments were made as the assets are used exclusively by the Group.

11.9. Other long-term receivables

	Sep 30 2020	*Dec 31 2019*
Financial receivables		
Security deposits/retentions	258	503
Other financial receivables	105,614	77,246
Impairment loss on financial receivables (-)	(95)	(107)
Other long-term financial receivables (net)	**105,777**	**77,642**
Non-financial receivables		
Other non-financial receivables	150	138
Other non-financial receivables (net)	**150**	**138**
Total other long-term receivables (net)	**105,927**	**77,780**

11.10. Shares in other entities

	Sep 30 2020	*Dec 31 2019*
Shares in other listed companies	–	120
Shares in other non-listed companies	1,376	1,376
	1,376	**1,496**

*Shares pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.19.3

11.11. Non-current financial assets

	Sep 30 2020	*Dec 31 2019*
Long-term bonds	–	–
Long-term deposits	88	–
	88	**–**

(PLN thousand)

11.12. Inventories

	Sep 30 2020	*Dec 31 2019*
Materials (at net realisable value):	36,207	31,872
At cost	48,929	43,847
At net realisable value	36,207	31,872
Finished goods	6	1,155
At cost	6	1,155
At net realisable value	6	1,155
Total inventories, at the lower of cost and net realisable value	**36,213**	**33,027**

* Inventories pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.19.4

11.13. Other current financial assets

	Sep 30 2020	*Dec 31 2019*
Advance payment to acquire the right to a loan	10,400	10,400
Impairment loss on advance payment to acquire the right to a loan	(10,400)	(10,400)
Short-term bonds*	27,822	27,822
Impairment of short-term bonds	(27,822)	(27,822)
	–	–

* For a detailed description of the bonds, see Note 11.13.1.

11.13.1. Bonds

As at September 30th 2020, RAFAKO S.A. recognised impairment losses on all bonds held by the parent.

For a detailed description of the bonds, see Note 26.1 to the Group's full-year consolidated financial statements for 2019.

11.14. Cash and cash equivalents

	Sep 30 2020	*Dec 31 2019*	*Sep 30 2019*
Cash at bank and in hand	93,631	62,625	77,386
Short-term deposits for up to 3 months	81	3,457	37
	93,712	**66,082**	**77,423**

Cash at banks earns interest at variable rates linked to the reference rates prevailing on the interbank market. Short-term deposits, classified as cash, are placed for various periods, usually of one day to one month, depending on the Group's immediate cash requirement, and earn interest at rates agreed with the bank.

(PLN thousand)

As at September 30th 2020, cash also included restricted cash of PLN 64.1m (December 31st 2019: PLN 40.1m), being cash held by the subsidiary E003B7 Sp. z o.o. and earmarked for the Jaworzno contract. From the RAFAKO Group's perspective, this cash is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno Project. The Group also holds restricted cash, including cash from grants (held in separate bank accounts), which may be used by the parent to pay amounts due under running projects. As at September 30th 2020, the amount was PLN 7,698 thousand. Furthermore, as at September 30th 2020, the Group had restricted cash of PLN 3.5m in an assigned account.

11.15. Short-term trade and other receivables

	Sep 30 2020	*Dec 31 2019*
Financial receivables		
Trade receivables	234,381	452,764
Impairment loss on trade receivables (-)	(25,334)	(13,674)
Net trade receivables	**209,047**	**439,090**
Receivables on sale of property, plant and equipment and intangible assets	590	8
Security deposits	63,231	67,710
Receivables under court proceedings*	50,350	31,896
Other financial receivables	8,060	11,072
Impairment loss on financial receivables (-)	(31,740)	(33,648)
Total financial receivables, net	**299,538**	**516,128**
Non-financial receivables		
Receivables under prepayments and advance payments	104,647	105,919
Receivables from the state budget	15,902	13,498
Other non-financial receivables	28,844	11,849
Impairment loss on non-financial receivables (-)	(63,633)	(39,430)
Total non-financial receivables, net	**85,760**	**91,836**
Total short-term receivables, net	**385,298**	**607,964**

*The parent recognised an impairment loss on the receivables in an amount corresponding to the risk of their non-recoverability. For a detailed description of disputed receivables, see Note 22 to these interim condensed consolidated financial statements.

Receivables from the state budget include chiefly domestic and foreign VAT receivables.

Trade receivables bear no interest and are usually payable within 30 days. However, in the case of some trading partners, the due dates for payment are set by way of individual arrangements and fall between one and three months of the invoice date.

The Group's policy is to sell its products exclusively to customers who have successfully passed a credit verification procedure. As a result, the Management believes there is no additional material credit risk that would exceed the uncollectible debt allowance made for trade receivables.

Short-term trade receivables of PLN 209,047 thousand recognised in the interim condensed consolidated statement of financial position as at September 30th 2020 relate to trading contracts with domestic and foreign trading partners.

(PLN thousand)

Security deposits of PLN 63,231 thousand disclosed in the statement of financial position relate mainly to projects implemented in the following areas:

- construction of a coal-fired steam unit – PLN 18,329 thousand;
- construction of a coke gas-fired power generation unit − PLN 7,128 thousand;
- manufacture of an evaporator – PLN 6,128 thousand;
- manufacture of high-pressure sections of a boiler for an incineration plant – PLN 6,079 thousand;
- construction of a compressor station – PLN 3,122 thousand.

The change in the amount of security deposits in the nine months ended September 30th 2020 was primarily attributable to the refund of a PLN 3,509 thousand cash security deposit provided in connection with the performance of contracts for the upgrade of FGD units and the refund of a PLN 8,139 thousand cash security deposit provided in connection with the performance of a contract for delivery of a catalytic flue gas NOx reduction unit.

A significant item of other receivables were advance payments, which as at September 30th 2020 amounted to PLN 104,647 thousand and included:

- advance payment of PLN 44,740 thousand towards a contract to construct fuel storage tanks;
- advance payment of PLN 14,173 thousand under a contract to construct a biomass boiler island;
- advance payment of PLN 12,014 thousand under a contract to construct a power generation unit;
- advance payment of PLN 11,159 thousand under a contract to construct a gas pipeline;
- advance payment of PLN 6,493 thousand under a contract to construct an LNG storage tank.

11.16. Short-term accrued expenses and deferred income

	Sep 30 2020	*Dec 31 2019*
Costs of bank and insurance guarantees	4,845	6,333
Costs of obtaining contracts with customers	–	–
Expenditure on development work – eBus	–	13,436
Other costs	1,986	1,561
Accrued expenses and deferred income	**6,831**	**21,330**

In 2017, the parent commenced the construction of a prototype of the first Polish zero-emission electric bus with a battery under the chassis.

On September 28th 2020, RAFAKO S.A. w restrukturyzacji signed an agreement to sell an organised part of business operating as the Company's branch under the name of RAFAKO S.A. Oddział w Solcu Kujawskim, for an amount of PLN 30,985,000.00; the agreement was executed by and between RAFAKO EBUS Sp. z o.o. of Racibórz and RAFAKO S.A. w restrukturyzacji, with the participation of Agencja Rozwoju Przemysłu S.A. of Warsaw. As part of the transaction, development expense on the eBus prototype was sold.

11.17. Loans

As at September 30th 2020, loans granted by the Group companies to PBG S.A. w restrukturyzacji (formerly PBG oil and gas Sp. z o.o.), for a total amount of PLN 12,252 thousand, plus accrued interest, were impaired. The loan repayment date was December 31st 2019. The loans are secured with blank promissory notes.

(PLN thousand)

11.18. Impairment losses on consolidated assets

	Property, plant, equipment and intangible assets	*Shares**	*Other financial assets*****	*Other non-financial assets*****	*Inventories***	*Contract assets*	*Receivables****
Jan 1 2020	(2,566)	(5,426)	(10,400)	(5,676)	(11,974)	(1,415)	(86,859)
Recognised	(4,407)	(38)	–	–	(2,412)	(231)	(39,396)
Reversed	80	–	–	–	477	498	874
Used	3	410	–	–	1,187	–	4,579
Sep 30 2020	**(6,890)**	**(5,054)**	**(10,400)**	**(5,676)**	**(12,722)**	**(1,148)**	**(120,802)**
Jan 1 2019	(518)	(4,975)	(10,400)	(5,676)	(10,287)	(1,848)	(51,502)
Recognised	(2)	(47)	–	–	–	(1,422)	(3,832)
Reversed	–	–	–	–	115	–	1,771
Used	448	–	–	–	294	–	13,529
Sep 30 2019	**(72)**	**(5,022)**	**(10,400)**	**(5,676)**	**(9,878)**	**(3,270)**	**(40,034)**

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares in companies which are in a company voluntary arrangement process.
** Inventory write-downs and write-down reversals are charged to cost of products and services sold.
*** Impairment losses on trade and other receivables, including on contractual penalties.
**** The parent's Management Board estimates that financial assets covered by an agreement concluded in 2012 are exposed to a significant risk of non-recoverability and has upheld its decision to recognise an impairment loss for the full amount of the project.

With respect to trade receivables for which lifetime expected losses are estimated, the Group is not exposed to credit risk related to a single major trade partner. In consequence, impairment losses are estimated on a collective basis and the receivables are grouped based on the past due period. Allowances are estimated based mainly on historical data on days past due and an analysis of days past due and actual payments over the last five years.

(PLN thousand)

As at September 30th 2020 and the comparative date, the gross amounts of individual groups and impairment losses were as follows:

	Assets assets	Current	Trade receivables 0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
Sep 30 2020								
Location: Poland								
Impairment loss rate	0.54%	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	166,418	56,519	40,180	18,528	5,695	6,102	10,229	303,671
Impairment loss	(1,148)	(879)	(614)	(4,622)	(2,587)	(3,684)	(9,553)	(23,087)
Location: outside Poland								
Impairment loss rate	–	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	–	93,724	825	1,471	–	13	1,097	97,130
Impairment loss	–	(891)	(4)	(1,468)	–	(9)	(1,023)	(3,395)
Total impairment losses	**(1,148)**	**(1,770)**	**(618)**	**(6,090)**	**(2,587)**	**(3,693)**	**(10,576)**	**(26,482)**

	Assets assets	Current	Trade receivables 0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
Dec 31 2019								
Location: Poland								
Impairment loss rate	0.54%	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	271,203	301,429	3,249	11,488	8,675	1,046	7,552	604,642
Impairment loss	(1,415)	(1,097)	(395)	(159)	(2,171)	(861)	(7,493)	(13,591)
Location: outside Poland								
Impairment loss rate	–	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	–	112,099	5,562	453	471	491	249	119,325
Impairment loss	–	(609)	(30)	(101)	(208)	(317)	(233)	(1,498)
Total impairment losses	**(1,415)**	**(1,706)**	**(425)**	**(260)**	**(2,379)**	**(1,178)**	**(7,726)**	**(15,089)**

As at September 30th 2020, an impairment loss of PLN 31,740 thousand was recognised on other short-term financial receivables with a gross carrying amount of PLN 122,231 thousand (December 31st 2019: PLN 110,686 thousand; impairment loss on other receivables: PLN 33,648 thousand).

(PLN thousand)

11.19. Assets pledged as security for the Group's liabilities

11.19.1. Property, plant and equipment pledged as security

As at September 30th 2020, property, plant and equipment pledged as security for the Group's liabilities amounted to PLN 118,308 thousand. The parent's property, plant and equipment of PLN 117,146 thousand were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m over property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims against RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno TAURON Sp. z o.o. in connection with the execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights). A subsidiary's buildings and structures worth PLN 1,157 thousand, as well as IT equipment and office containers worth PLN 5 thousand are also pledged as security for liabilities under the credit facility agreements.

	Sep 30 2020	*Dec 31 2019*
Mortgaged property, plant and equipment, including:	81,822	84,278
land	9,162	9,162
buildings and structures	72,660	75,116
Property, plant and equipment encumbered with registered pledge, including:	36,486	39,287
plant and equipment	34,013	36,885
vehicles	2,473	2,402
	118,308*	**123 565***

* The disclosed amounts include property, plant and equipment of PLN 312 thousand classified as held for sale (December 31st 2019: PLN 123 thousand).

11.19.2. Intangible items pledged as security

As at September 30th 2020, intangible assets worth PLN 6,720 thousand were pledged as security for the parent's liabilities (December 31st 2019: PLN 8,097 thousand). The assets were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO S.A. under the surety agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno TAURON Sp. z o.o. in connection with execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.19.3. Shares pledged as security

As at September 30th 2020, the parent's shares in subsidiaries and other entities with a value of PLN 28,760 thousand (December 31st 2019: PLN 31,310 thousand) were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights, a financial pledge and a registered pledge over shares in E003B7 Sp. z o.o).

11.19.4. Inventories pledged as security

As at September 30th 2020, inventories worth PLN 35,475 thousand were pledged as security for the parent's liabilities (December 31st 2019: PLN 27,205 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the surety agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.19.5. Trade receivables pledged as security

As at September 30th 2020, trade receivables of PLN 65,582 thousand were pledged as security for guarantees and borrowings received by the Group (December 31st 2019: PLN 21,499 thousand).

11.20. Share capital

In the nine months ended September 30th 2020, RAFAKO S.A.'s share capital remained unchanged and as at September 30th 2020 amounted to PLN 254,864 thousand.

Equity	*Number of shares*	*Value of shares PLN '000*
Series A Shares	900,000	1,800
Series B Shares	2,100,000	4,200
Series C Shares	300,000	600
Series D Shares	1,200,000	2,400
Series E Shares	1,500,000	3,000
Series F Shares	3,000,000	6,000
Series G Shares	330,000	660
Series H Shares	8,070,000	16,140
Series I Shares	52,200,000	104,400
Series J Shares	15,331,998	30,664
Series K Shares	42,500,000	85,000
	127,431,998	**254,864**

In connection with the 2016 bond issue carried out by PGB S.A. w restrukturyzacji, the parent's main shareholder, a registered pledge was created over RAFAKO S.A. shares held directly by PBG S.A. (7,665,999 shares) and indirectly through Multaros Trading Company Limited, a subsidiary of PBG S.A. w restrukturyzacji (34,800,001 shares) for the benefit of bondholders.

11.21. Par value per share

The par value of the shares is PLN 2.00 per share. The shares were taken up for cash.

11.22. Shareholders' rights

Shares of all series carry equal rights as to dividend payment and return on equity.

11.23. Share premium

In the nine months ended September 30th 2020, there were no changes in the share premium, and as at September 30th 2020 the share premium was PLN 165,119 thousand.

11.24. Earnings /(loss) per share

Earnings per share are calculated as the quotient of net profit attributable to owners of the parent and the weighted average number of ordinary shares outstanding during the period.

(PLN thousand)

To calculate basic and diluted earnings/(loss) per share, the Group uses the amount of net profit/(loss) attributable to owners of RAFAKO S.A. in the numerator, which does not have a dilutive effect on profit/(loss).

The table below presents the computation of the basic and diluted earnings/(loss) per share, with the reconciliation of the diluted weighted average number of shares.

	9 months ended Sep 30 2020	*9 months ended Sep 30 2019*
Net profit/(loss) from continuing operations	(269,574)	(199,529)
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	**(259,919)**	**(199,255)**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	127,431,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	127,431,998
Earnings/(loss) per share, PLN		
– basic earnings from profit attributable to holders of ordinary shares for period	(2.12)	(1.57)
– diluted earnings from profit attributable to holders of ordinary shares for period	(2.12)	(1.57)

In the nine months ended September 30th 2020, the parent did not issue new shares.

11.25. Other non-current liabilities

	Sep 30 2020	*Dec 31 2019*
Financial liabilities		
Retentions (security deposits)	–	43
Other liabilities	12,602	20,552
Total financial liabilities	**12,602**	**20,595**

(PLN thousand)

11.26. Long-term employee benefit obligations

	Sep 30 2020	*Dec 31 2019*
Unpaid bonus accrual	–	5
Provision for retirement gratuity	9,345	8,716
Provision for long-service benefits	12,912	13,944
Provision for other employee benefits	6,984	6,815
	29,241	**29,480**

11.27. Post-employment and other benefits

Based on a valuation forecast made as at the reporting date by a professional actuary, the Group recognises a provision for the present value of its obligation related to payment of retirement gratuity benefits, jubilee benefits and the Company Social Benefits Fund. The provision amount and a reconciliation showing movements in the provision during the reporting period are presented in the table below:

	Sep 30 2020	*Dec 31 2019*
As at January 1st	31,941	26,207
Interest expense	452	729
Current service costs	493	692
Actuarial (gains)/losses	606	6,877
Benefits paid	(2,086)	(2,564)
Closing balance	**31,406**	**31,941**
Long-term provisions	29,241	29,475
Short-term provisions	2,165	2,466

The main assumptions adopted by the actuary as at September 30th 2020 and for the nine months ended September 30th 2019, as well as for the 12 months ended December 31st 2019 to determine the amount of the obligation were as follows:

	Sep 30 2020	*Dec 31 2019*
Discount rate (%)	1.9	1.9
Expected inflation rate (%)*	–	–
Employee turnover rate	7.5	7.5
Expected growth of salaries and wages (%)**	2	2

* No data provided in the actuary's report.
** 2% in 2019 and in subsequent years

11.28. Other long-term provisions

	Sep 30 2020	*Dec 31 2019*
Provision for warranty repairs	63,427	36,357
	63,427	**36,357**

(PLN thousand)

11.29. Short-term trade and other payables

	Sep 30 2020	*Dec 31 2019*
Financial liabilities		
Trade payables	513,240	571,365
Amounts payable for tangible and intangible assets	–	169
Retentions (security deposits)	199	261
Other financial liabilities	–	–
Total financial liabilities	**513,439**	**571,795**
Non-financial liabilities		
Taxes and other duties payable	4,381	23,924
Amounts payable under sureties/joint and several liability	7,966	15,386
Liabilities due to delayed payment of costs	7,532	13,582
Other non-financial liabilities	4,668	3,968
Total non-financial liabilities	**24,547**	**56,860**
	537,986	**628,655**

11.30. Short-term employee benefit obligations and provisions

	Sep 30 2020	*Dec 31 2019*
Social security	20,164	9,494
Salaries and wages payable	9,405	9,118
Obligations under Employee Capital Plans	191	226
Accrued holiday entitlements	3,941	4,129
Unpaid bonus accrual	340	883
Provision for retirement gratuity	203	433
Provision for long-service benefits	1,694	1,771
Provision for other employee benefits	271	270
	36,209	**26,324**

11.31. Other short-term provisions

	Sep 30 2020	*Dec 31 2019*
Provision for warranty repairs	3,006	6,714
Provision for expected contract losses	29,634	39,695
Other provisions	1,205	713
	33,845	**47,121**

12. Objectives and policies of financial risk management

The objectives and policies of financial risk management have not changed relative to those published in the most recent full-year consolidated financial statements for 2019.

(PLN thousand)

13. Financial instruments

The Group presents the particular classes and categories of its financial instruments at carrying amounts (their fair values approximate their carrying amounts). Their fair values approximate their carrying amounts due to relatively short maturities of short-term items or discounting of long-term accounts receivable and payable.

The value of financial assets presented in the statement of financial position as at September 30th 2020 and December 31st 2019 relates to the following categories of financial instruments defined in IFRS 9:

- financial assets at amortised cost,
- financial assets at fair value through profit or loss – designated as such on initial recognition or subsequently,
- financial assets at fair value through profit or loss – obligatorily measured this way in accordance with IFRS 9,
- equity instruments at fair value through other comprehensive income designated as such on initial recognition,
- financial assets at fair value through other comprehensive income,
- financial instruments designated as hedging instruments,
- assets outside the scope of IFRS 9 (non-IFRS 9).

The Group presents the particular classes and categories of its financial instruments at carrying amounts (their fair values approximate their carrying amounts). Their fair values approximate their carrying amounts due to relatively short maturities of short-term items or discounting of long-term accounts receivable and payable.

Classes and categories of financial assets	*Carrying amount Sep 30 2020*	*Carrying amount Dec 31 2019*
Assets at fair value through profit or loss	**–**	**120**
Long-term shareholdings	–	120
Assets at fair value through other comprehensive income	**1,376**	**1,376**
Long-term shareholdings	1,376	1,376
Assets at amortised cost	**499,227**	**659,854**
Trade receivables	314,566	516,230
Receivables on sale of property, plant and equipment and intangible assets	590	8
Other financial receivables*	90159	77,534
Long-term deposits	88	–
Short-term deposits	112	–
Cash and cash equivalents	93,712	66,082
	500,603	**661,350**

** Including liquidated damages, disputed receivables, and security deposits.*

(PLN thousand)

The value of financial liabilities presented in the statement of financial position as at September 30th 2020 and December 31st 2019 relates to the following categories of financial instruments defined in IFRS 9:

- financial liabilities at amortised cost
- financial liabilities at fair value through profit or loss – designated as such on initial recognition or subsequently,
- financial liabilities at fair value through profit or loss – financial liabilities held for trading in accordance with IFRS 9,
- financial guarantee agreements,
- contingent consideration in business combinations,
- financial instruments designated as hedging instruments,
- liabilities outside the scope of IFRS 9 (non-IFRS 9).

Classes and categories of financial liabilities	*Carrying amount*	
	Sep 30 2020	*Dec 31 2019*
Financial liabilities at amortised cost	**564,582**	**705,466**
Borrowings	38,542	113,075
Trade payables (including capital commitments)	525,841	592,086
Other financial liabilities	199	305
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**7,652**	**13,079**
Liabilities under leases and rental contracts with purchase option	7,652	13,079
	572,234	**718,545**

The table below presents financial assets and liabilities recognised at fair value in the consolidated financial statements, classified in accordance with a 3-level fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 – inputs other than level-1 quoted market prices that are observable for the assets and liabilities in active markets,
- Level 3 - inputs not observable in active markets.

Sep 30 2020	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	–	–
Long-term shareholdings	–	–	–
Assets at fair value through other comprehensive income	**1,376**	–	–
Long-term shareholdings	1,376	–	–

Dec 31 2019	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**120**	–	–
Long-term shareholdings	120	–	–
Assets at fair value through other comprehensive income	**1,376**	–	–
Long-term shareholdings	1,376	–	–

In the reporting period, there were no material transfers between Level 1 and Level 2 of the fair value hierarchy.

14. Derivative instruments

As at September 30th 2020 and December 31st 2019, the Group did not carry any open currency forward contracts.

As at September 30th 2020 and December 31st 2019, the Group did not carry any other types of open derivative instruments.

The Group companies do not apply hedge accounting, but the transactions are not speculative and their purpose is to effectively hedge foreign currency purchase/sale contracts.

(PLN thousand)

15. Borrowings

15.1. Long-term borrowings

Long-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Sep 30 2020*	*Dec 31 2019*
Siemens Finance Sp. z o.o.	blank promissory note	Loan agreement	PLN	1M WIBOR + margin	Jul 15 2021	854	24
						854	**24**

15.2. Short-term borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Sep 30 2020*	*Dec 31 2019*
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 50m***	PLN	1M WIBOR + margin	Jan 10 2021****	18,948	69,569
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility of up to PLN 7m***	PLN	1M WIBOR or 1M EURIBOR + margin	Jan 10 2021****	3,587	34,149
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility to cover liabilities related to payments made under bank guarantees***	PLN	1M WIBOR + margin	Jan 10 2021****	8,308	8,303

(PLN thousand)

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Sep 30 2020*	*Dec 31 2019*
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility to cover liabilities related to payments made under bank guarantees***	PLN	1M WIBOR + margin	Jan 10 2021****	5,911	–
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	PLN 1m overdraft facility	PLN	1M WIBOR + margin	Sep 30 2020	730	936
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, statements on submission to enforcement, mortgages, assignment of claims under insurance policy	PLN 2m working capital facility agreement	PLN	1M WIBOR + margin	Nov 10 2020	–	56
Siemens Finance Sp. z o.o.	blank promissory note	Loan agreement	PLN	1M WIBOR + margin	Jul 15 2021	33	38
Polski Fundusz Rozwoju S.A.		Subsidy	PLN		Jun 30 2024	171	–
						37,688	**113,051**

*The facility is secured by receivables under contracts executed by RAFAKO S.A.;
As at the date of these interim condensed financial statements, the Company had established mortgages over its properties (other than flats and residential buildings) for a total amount of up to PLN 300m, serving as additional security for the PKO BP credit facility;
***As at the date of issue of these interim condensed financial statements, in accordance with the annex of November 10th 2020 to the multi-purpose credit facility agreement, the facility limit was set at PLN 119.9m, including an overdraft facility of up to 50 million.
***As at the date of issue of these interim condensed financial statements, in accordance with the annex of November 10th 2020 to the multi-purpose credit facility agreement, the term of the facility and its repayment date were extended until January 10th 2021.

The parent plans to extend the credit facility agreement for subsequent periods. The Group's credit standing should be analysed taking into account the information presented in Note 2.

(PLN thousand)

16. Capital management

The Group's standing should be analysed in conjunction with Note 2 on going concern.

	Sep 30 2020	*Dec 31 2019*
Debt to equity		
Equity	(155,587)	114,263
Borrowed funds (bank and non-bank borrowings)	38,542	113,075
Total equity and liabilities	984,923	1,302,431
Capitalisation ratio (equity / total assets)	**(0.16)**	**0,09**
Total financing sources		
Equity	(155,587)	114,263
Borrowed funds (bank and non-bank borrowings)	38,542	113,075
Finance leases	7,652	13,079
Capital-to-total financing sources ratio	**(3.37)**	**0.91**
EBITDA		
Operating profit/(loss)	(251,648)	(437,561)
Depreciation and amortisation	11,233	17,599
EBITDA	**(240,415)**	**(419,962)**
Debt		
Borrowings and other debt instruments	38,542	113,075
Finance leases	7,652	13,079
Debt to EBITDA	**(0.19)**	**(0.30)**

(PLN thousand)

17. Change in provisions, liabilities and accruals and deferred income disclosed in the Group's consolidated statement of financial position

	Provision for expected losses on contracts	*Provision for jubilee benefits, retirement gratuity and Company Social Benefits Fund*	*Provision for unused holiday entitlement*	*Provision for warranty repairs*	*Employee benefit obligations*	*Provision for credit losses on sureties*	*Provision for Voluntary Redundancy Programme*	*Provision for other costs*	*Other provisions*
Jan 1 2020	**39,694**	**31,942**	**4,129**	**43,071**	**888**	**7,347**	**–**	**1,775**	**424**
Recognised	47,423	1,551	631	30,857	74	–	–	452	–
Reversed	(57,483)	–	(819)	(1,017)	(622)	–	–	(1,562)	(124)
Used	–	(2,085)	–	(6,478)	–	–	–	(180)	–
Sep 30 2020	**29,634**	**31,408**	**3,941**	**66,433**	**340**	**7,347**	**–**	**485**	**300**
Jan 1 2019	**3,677**	**26,207**	**4,202**	**40,553**	**5,725**	**1,549**	**145**	**571**	**233**
Recognised	23,108	1,209	668	10,180	2,407	1,418	–	–	264
Reversed	(12,476)	–	(825)	(2,020)	(116)	(71)	(4)	(107)	–
Used	–	(1,784)	–	(5,448)	(5,101)	–	(141)	–	(266)
Sep 30 2019	**14,309**	**25,632**	**4,045**	**43,265**	**2,915**	**2,896**	**–**	**464**	**231**

(PLN thousand)

18. Issue, redemption and repayment of debt and equity securities

In the nine months ended September 30th 2020, the parent did not issue, redeem or repay any debt or equity securities.

19. Dividends paid or declared

In the nine months ended September 30th 2020, Group companies did not pay any dividends. In accordance with the applicable laws, dividends may only be distributed from the profit of individual Group companies, and not based on the Group's consolidated net result.

20. Capital commitments

As at September 30th 2020, the RAFAKO Group companies did not recognise any commitments related to purchase of property, plant and equipment . The Group companies were not a party to any contracts or agreements which would commit them to incur capital expenditure in 2020 but were not disclosed in the accounting records as at the reporting date.

21. Movements in off-balance sheet items; loan sureties and guarantees granted

	Sep 30 2020	*Dec 31 2019*
Receivables under financial guarantees obtained mainly as security for performance of contracts, including:	717,079	701,105
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	39,715	65,997
- from related entities	7,239	48,625
Letters of credit	–	5,643
	756,794	**772,745**

	Sep 30 2020	*Dec 31 2019*
Liabilities under financial guarantees issued mainly as security for contract performance, including:	467,575	515,074
- to related entities	–	–
Liabilities under sureties, including:	1,183,441	1,175,587
- to related entities	–	–
Promissory notes issued as security, including:	116,153	117,868
- to related entities	576	576
Letters of credit	–	–
	1,767,169	**1,808,529**

In the nine months ended September 30th 2020, the RAFAKO Group recorded a PLN 41,360 thousand decrease in the amount of contingent liabilities, due mainly to a lower amount of guarantees granted. In the reporting period, at the request of RAFAKO S.A. w restrukturyzacji, the banks and insurance companies issued guarantees (performance bonds and bid bonds) for the benefit of the Group's trading partners for a total amount of PLN 8,153 thousand. The largest item of contingent liabilities was an advance payment guarantee of EUR 1,354 thousand issued in June 2020. As at the end of September 2020, liabilities under sureties in issue were PLN 1,183,441 thousand. In this category of liabilities, the largest item was the sureties covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. w restrukturyzacji on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. – construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II.

The largest item of guarantees expired in the nine months ended September 30th 2020 was a EUR 8,139 thousand performance bond.

In the nine months ended September 30th 2020, the Group's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 15,951 thousand, which included an increase of PLN 15,974 thousand in receivables under bank and insurance guarantees, a decrease of PLN 26,282 thousand in receivables under promissory notes and a decrease of PLN 5,643 thousand in letters of credit. The largest item of guarantees received in the nine months ended September 30th 2020 was a PLN 1,397 thousand performance bond. The largest guarantee which expired in the nine months ended September 30th 2020 was a EUR 974 thousand performance bond.

22. Litigation and disputes

As at the date of these interim condensed consolidated financial statements, the Group companies were involved in litigation both as a defendant and a plaintiff.

For a detailed description of key court cases, see the Group's consolidated financial statements for the year ended December 31st 2019, available at:

https://www.rafako.com.pl/relacje-inwestorskie/raporty-okresowe?page=18326

The disputes described in Notes 38.1 and 38.4 to the full-year financial statements are considered closed.

In the arbitration dispute against Wärtsilä Finland Oy described in Note 38.3, a settlement was reached whereby the parties waived their mutual claims and agreed to cover their own costs connected with the proceedings. The settlement agreement has a neutral effect on the Company's financial performance.

The dispute with Stal-Systems S.A., described in Note 38.6 to the full-year financial statements for 2019, is pending and is expected to be resolved within the next few months; the Company anticipates a favourable judgment.

With respect to the case described in Note 38.7, on October 28th 2020 the Company received a court order for payment of PLN 1,917,750. The order is not final.

On July 10th 2020, RAFAKO S.A. w restrukturyzacji submitted a request to initiate arbitration proceedings against UAB VILNIAUS KOGENERACINË JËGAINË (VKJ) as the employer under the Vilnius project, which will be held at the Arbitration Institute of the Stockholm Chamber of Commerce in Stockholm. The main claims submitted by the Company in these proceedings are: i) extension of the project execution period until April 1st 2021, and ii) payment of additional remuneration for additional project costs. VKJ submitted a preliminary response to RAFAKO's request. In addition, withdrawal from the contract will extend the scope of the dispute and the schedule of the arbitration procedure.

There were no material changes in all other proceedings described in the full-year financial statements for 2019.

23. Parent's Management Board and Supervisory Board

In the nine months ended September 30th 2020 and as at the date of these interim condensed consolidated financial statements, there were changes in the composition of the parent's Management Board.

(PLN thousand)

On January 7th 2020, Jerzy Ciechanowski, Vice President of the Management Board, resigned from his position on the Management Board, with effect from January 7th 2020, citing personal reasons.

On May 20th 2020, the Supervisory Board of RAFAKO S.A:

- removed Paweł Jarczewski from the Management Board,
- appointed Ms Agnieszka Wasilewska-Semail as acting President of the Management Board,
- delegated Michał Sikorski to temporarily serve as Member of the Management Board for a period of three months, and
- appointed Radosław Domagalski-Łabędzki as Vice President of the Management Board.

On August 12th 2020, following the expiry of the term of office and mandates of the existing Management Board members as of August 12th 2020, the Supervisory Board of the parent:

- set the number of members of the RAFAKO Management Board at two;
- appointed the following persons to the Management Board for the joint three-year term of office starting on August 12th 2020:
  - Mariusz Zawisza, President of the Management Board,
  - Radosław Domagalski-Łabędzki, Vice President of the Management Board.

On September 8th 2020, the Supervisory Board passed the following resolutions to fill vacant positions on the Management Board, with effect from September 10th 2020:

- the Supervisory Board set the number of members of the Management Board at four,
- appointed Jarosław Pietrzyk to the Management Board as Vice President, Chief Operating Officer, and
- appointed Ms Ewa Porzucek as Vice President of the Management Board, Chief Financial Officer.

As at the date of these interim condensed consolidated financial statements, the composition of the Management Board of the parent was as follows:

Mariusz Zawisza	– President of the Management Board
Radosław Domagalski-Łabędzki	– Vice President of the Management Board
Jarosław Pietrzyk	– Vice President of the Management Board, Operations
Ewa Porzucek	– Vice President of the Management Board, Finance.

In the nine months ended September 30th 2020 and by the date of these interim condensed consolidated financial statements, there were no changes in the composition of the Supervisory Board of RAFAKO S.A. w restrukturyzacji.

On February 4th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights, removed Jerzy Karney from the Supervisory Board and appointed Mr Maciej Stańczuk to the Supervisory Board.

On April 18th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights, removed Michał Maćkowiak from the Supervisory Board and appointed Konrad Milczarski to the Supervisory Board.

On May 11th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights, removed Małgorzata Wiśniewska from the Supervisory Board and appointed Piotr Zimmerman to the Supervisory Board.

On May 28th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights:

- removed Konrad Milczarski from the Supervisory Board,
- appointed Bartosz Sierakowski as Member of the Supervisory Board.

On the same day, the Extraordinary General Meeting of RAFAKO S.A.:

- removed Adam Szyszka from the Supervisory Board, and
- appointed Konrad Milczarski as Member of the Supervisory Board.

As at the date of these interim condensed consolidated financial statements, the composition of the Supervisory Board was as follows:

Piotr Zimmerman	– Chairman of the Supervisory Board,
Michał Sikorski	– Deputy Chairman of the Supervisory Board,
Przemysław Schmidt	– Secretary of the Supervisory Board (independent member),
Krzysztof Gerula	– Member of the Supervisory Board (independent member),

(PLN thousand)

Konrad Milczarski – Member of the Supervisory Board,
Bartosz Sierakowski – Member of the Supervisory Board,
Maciej Stańczuk – Member of the Supervisory Board.

24. Transactions with members of the Management Board and the Supervisory Board

In the reporting and comparative periods, no loans were advanced to members of the management or supervisory boards of the Group companies.

In the reporting and comparative periods, the Group companies did not enter into any transactions with members of their management boards, other than transactions described in Note 25.

25. Related-party transactions

The related parties of RAFAKO S.A. are its key management personnel, subsidiaries exempt from consolidation and other related parties, including entities controlled by the management boards of Group companies. The Group's other key related parties include PBG S.A. w restrukturyzacji.

Outstanding balances of receivables and liabilities are usually settled in cash. For information on contingent liabilities associated with related parties, see Note 21.

In the nine months ended September 30th 2020, the parent and its subsidiaries did not enter into any material transactions with related parties on non-arm's length terms. All transactions with related parties are executed on terms applied by the Group in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are applied. A related party must ensure that a contract is performed in accordance with the relevant documentation, give a warranty for a specified period, and provide security in the form of a performance bond. Related parties are also required to accept standard liquidated damages clauses, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

The following amounts of revenue and receivables from related parties were recognised in the period covered by these interim condensed consolidated financial statements:

	Operating income	
	Jan 1– Sep 30 2020	*Jan 1– Sep 30 2019*
Sales to:		
Entities related through equity links:	709	1,881
Entities related through personal links:	24	94
TOTAL	**733**	**1,975**

(PLN thousand)

	Receivables	
	Sep 30 2020	*Dec 31 2019*
Sales to:		
Entities related through equity links:	50,147	39,126
Entities related through personal links:	29	127
TOTAL	**50,176**	**39,253**

** Including bonds from PBG S.A. described in Note 11.13.1.*

The following amounts of purchases from and liabilities to related entities were recognised in the period covered by these financial statements:

	Purchases (costs, assets)	
	Jan 1– Sep 30 2020	*Jan 1– Sep 30 2019*
Purchases from:		
Entities related through equity links:	1,551	51,138
Entities related through personal links:	8,345	13,310
TOTAL	**9,896**	**64,448**

	Liabilities	
	Sep 30 2020	*Dec 31 2019*
Purchases from:		
Entities related through equity links:	308	241
Entities related through personal links:	2,280	6,506
TOTAL	**2,588**	**6,747**

26. Management Board's position on the Company's ability to deliver forecast results

The Group has not published any forecasts for 2020.

27. Brief description of the Company's material achievements and failures in Q3 2020

On September 28th 2020, the parent executed an agreement to sell

- an organised part of business operating as the parent's branch under the name of RAFAKO S.A. Oddział w Solcu Kujawskim for an amount of PLN 30,985,000.00 thousand; the agreement was executed by and between RAFAKO EBUS Sp. z o.o. of Racibórz and the parent, with the participation of Agencja Rozwoju Przemysłu S.A. of Warsaw, and
- 100% of shares in the share capital of RAFAKO EBUS Sp. z o.o. for PLN 15,000.00, between ARP and the parent.

The share purchase agreement was executed after the agreement to sell the organised part of business ("OPB") was concluded. The share purchase agreement included a condition precedent, which was payment of the price for the OPB (as provided for in the OPB sale agreement) out of the funds obtained by RAFAKO EBUS Sp. z o.o. from ARP following adoption of a resolution to increase the share capital of RAFAKO EBUS Sp. z o.o. as part of the closing process.

(PLN thousand)

Ownership of the OPB was acquired upon payment of the entire price for the OPB, while ownership of the shares – upon payment of the entire price for the RAFAKO EBUS Sp. z o.o. shares. At the time when ownership of 100% of the RAFAKO EBUS Sp. z o.o. shares was being transferred to ARP, the owner of the OPB was RAFAKO EBUS Sp. z o.o.

On August 27th 2020, the Management Board of the parent passed a resolution to commence restructuring of the RAFAKO S.A.'s workforce. The purpose of the restructuring is to adjust the level and costs of employment to the situation on the Company's markets. The Management Board of RAFAKO S.A. decided to launch the formal collective redundancy procedure within the meaning of the Act on Special Rules of Termination of Employment for Reasons Not Attributable to Employees of March 13th 2003.

28. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO (the parent) as at the date of issue of these interim condensed consolidated financial statements

The list of shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO S.A. as at the date of issue of these interim condensed consolidated financial statements is presented below.

Shareholder	*Number of shares*	*Number of voting rights*	*Ownership interest*	*% of total voting rights at GM*
PBG S.A., Multaros Trading Company Ltd. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, in accordance with the agreement of October 24th 2017 referred to in Art. 87.1.6) of the Public Offering Act (*), of which:	55,081,769	55,081,769	43.22%	43.22%
PBG S.A.(*)	7,665,999	7,665,999	6.02%	6.02%
Multaros Trading Company Limited (subsidiary of PBG S.A.) (*) (***)	34,800,001	34,800,001	27.31%	27.31%
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych managed by PFR TFI S.A. (**)	12,615,769	12,615,769	9.90%	9.90%
Other	72,350,229	72,350,229	56.78%	56.78%

(*) Number of shares based on PBG's and Multaros's notifications of December 28th 2017.
(**) Number of shares based on a notification of January 3rd 2018 received from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.
(***) Given the fact that Multaros Trading Company Ltd. is PBG S.A.'s subsidiary, RAFAKO S.A. (the "Company") is indirectly controlled by PBG S.A., which holds, directly and indirectly, 42,466,000 Company shares, representing 33.32% of its share capital and conferring the right to 33.32% of total voting rights at its General Meeting.

(PLN thousand)

29. Statement of changes in holdings of RAFAKO S.A. shares or RAFAKO S.A. share options by management and supervisory staff of the consolidated Group companies notified to RAFAKO S.A. after the issue of the previous financial statements

According to the information available to RAFAKO S.A, as at the date of this report the holdings of RAFAKO S.A. shares by the management and supervisory staff of the consolidated Group companies were as follows:

	Company	*As at Sep 30 2020*	*Increase*	*Decrease*	*As at Nov 27 2020*
Member of the Management Board					
Agnieszka Wasilewska- Semail – Acting President of the Management Board	RAFAKO S.A.	60,245	–	–	–
Member of the Supervisory Board		–	–	–	–

* On August 12th 2020, following the expiry of the term of office and mandate, Ms Agnieszka Wasilewska-Semail ceased to serve as acting President of the Management Board.

30. Factors with material bearing on the Company's performance in the fourth quarter of 2020

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts executed for the delivery of products and services by subcontractors), which may have a positive or negative effect on the result for the period after September 30th 2020;
- Risk that provisions may need to be recognised for liquidated damages for time overruns or failure to meet the guaranteed technical parameters under certain contracts;
- Risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs;
- Currency movements − significant changes in the PLN/EUR exchange rate may have a material effect on the profitability of EUR-denominated contracts;
- Risk of failure to obtain financial guarantees required to acquire and perform contracts;
- Reaction by trading partners to the Company's arrangement proceedings,
- Adverse economic impact of the COVID-19 epidemic.

31. Key items of the financial statements translated into the euro

In the periods covered by these interim condensed consolidated financial statements, the average exchange rates quoted by the National Bank of Poland were as follows:

- the exchange rate effective for the last day of the reporting period, September 30th 2020: 4.5268 PLN/EUR, December 31st 2019: 4.2585 PLN/EUR,
- the average exchange rate for the period, calculated as the arithmetic mean of the exchange rates effective for the last day of each month in the period: January 1st–September 30th 2020: 4.4241; PLN/EUR, /EUR, January 1st–December 31st 2019: 4.2988 PLN/EUR.

The highest and lowest exchange rates for each period were as follows: January 1st–September 30th 2020: 4.6044/4.2279 PLN/EUR, January 1st–December 31st 2019: 4.3891/4.2406 PLN/EUR.

	Sep 30 2020	Dec 31 2019	Sep 30 2020	Dec 31 2019
	PLN '000		EUR '000	
Statement of financial position				
Assets	984,923	1,302,431	217,576	305,843
Non-current liabilities	109,299	94,045	24,145	22,084
Current liabilities	1,031,211	1,094,123	227,801	256,927
Equity	(155,587)	114,263	(34,370)	26,832
PLN/EUR exchange rate at end of period			4.5268	4.2585

The table below sets forth the key items of the statement of financial position, statement of profit or loss and statement of cash flows, translated into the euro.

	Jan 1– Sep 30 2020	Jan 1– Sep 30 2019	Jan 1– Sep 30 2020	Jan 1– Sep 30 2019
	PLN '000		EUR '000	
Statement of comprehensive income				
Revenue	795,520	817,744	179,816	190,076
Operating profit/(loss)	(251,648)	(214,023)	(56,881)	(49,747)
Profit/(loss) before tax	(254,441)	(214,177)	(57,513)	(49,783)
Net profit/(loss) attributable to the parent	(259,919)	(199,255)	(58,751)	(46,315)
Earnings per share (PLN)	(2.12)	(1.57)	(0.46)	(0.36)
Average PLN/EUR exchange rate in the period			4.4241	4.3022
Statement of cash flows				
Net cash from operating activities	103,676	(19,855)	23,434	(4,615)
Net cash from investing activities	4,803	1,187	1,086	276
Net cash from financing activities	(80,657)	7,406	(18,231)	1,721
Net increase/(decrease) in cash and cash equivalents	27,822	(11,262)	6,289	(2,618)
Average PLN/EUR exchange rate in the period			4.4241	4.3022

(PLN thousand)

32. Remuneration of members of the management and supervisory boards of the parent and the Group companies

The remuneration paid to members of the Management and Supervisory Boards of Group companies for the nine months ended September 30th 2020 was as follows:

	Base pay	*Awards*	*Other remuneration*
RAFAKO S.A. – the parent			
Management Board	1,845	–	340
Supervisory Board	573	–	390
PGL-DOM Sp. z o.o. – a subsidiary			
Management Board	45	–	–
Supervisory Board	–	–	–
RAFAKO ENGINEERING Sp. z o.o. – subsidiary			
Management Board	1,323	51	9
Supervisory Board	70	–	–
RAFAKO ENGINEERING Sp. z o.o. – an indirect subsidiary			
Management Board	296	–	117
Supervisory Board	–	–	–
E001RK Sp. z o.o. – a subsidiary			
Management Board	–	–	–
Supervisory Board	–	–	–
E003B7 Sp. z o.o. – a subsidiary			
Management Board	991	–	660
Supervisory Board	535	–	–
RENG-NANO Sp. z o.o. – a subsidiary			
Management Board	120	–	–
Supervisory Board	–	–	–

33. Order book

As at September 30th 2020, the value of the Group's order book was close to PLN 1.2bn. The largest item was the PLN 0.3bn Jaworzno Project, with PLN 0.1bn outstanding under the contract and attributable to the parent and PLN 0.2bn outstanding under the contract and attributable to SPV Jaworzno. The order book did not include the Opole contract (RAFAKO's entire share in the project worth PLN 3.2bn was subcontracted outside the RAFAKO Group, of which PLN 0.01bn is still outstanding).

	ORDER BOOK (PLNm)		**Due for execution in**		
	as at Sep 30 2019	**as at Sep 30 2020**	**Sep–Dec 2020**	**2021**	**after 2021**
RAFAKO	2,401	968	253	706	9
SPV Jaworzno	616	249	115	134	–
Other	20	30	10	15	5
TOTAL	**3,037**	**1,247**	**378**	**855**	**14**

As regards the value of the RAFAKO Group's order book, data presented in this document is based on the following assumptions:

a. The order book value is equal to the aggregate amount of the Group's consideration under individual contracts executed by Group companies by September 30th 2020; the figure does not include any planned contracts that have not yet been signed, but it does include contracts signed conditionally;
b. The disclosed value of the order book is as at September 30th 2020; actual revenue from contracts and completion periods depend on a number of factors, which may be outside the Group's control.

34. Events after the reporting period

After the reporting period, no events took place that would materially affect the Group's financial performance.

On October 5th 2020, acting pursuant to the provisions of the contract with JSC VILNIAUS KOGENERACINĖ JĖGAINĖ, RAFAKO S.A. submitted a notice of impossibility/termination notifying the employer of:

1) inability to perform the contract due to the fact that the task the Company had committed itself to perform became different from that provided for in the contract or, alternatively
2) withdrawal from the contract due to lack of cooperation on the part of the employer and the employer's failure to perform its contractual obligations, in particular lack of coordination between projects LOT1 and LOT2,
3) withdrawal from the contract due to the employer's failure to issue on time interim payment certificates for completed milestones.

On October 6th 2020, the Company received a letter from JSC VILNIAUS KOGENERACINĖ JĖGAINĖ containing a notice of immediate withdrawal from the contract under subclause 15.2. As the main reason for the withdrawal the employer cites the fact that 'the Contractor conducts its business under the management of a receiver, trustee or administrator acting for the benefit of creditors' and that 'an event has occurred which (in accordance with applicable laws) has a similar effect'. RAFAKO S.A. w restrukturyzacji considers the employer's notice as ineffective since earlier, on October 5th 2020, the Company effectively submitted to the employer a notice of impossibility/termination.

On October 8th 2020, the Company was notified of the submission by JSC VILNIAUS KOGENERACINĖ JĖGAINĖ to KUKE Korporacja Ubezpieczeń Kredytów Eksportowych S.A. and Generali T. U. S.A. of a call on performance bonds totalling EUR 14,965,000. The performance bonds were provided to the employer at the request of RAFAKO S.A. in connection with the provisions of the contract. The time limit for payment under both bonds is five business days from the date of receipt of the call for payment. On October 20th 2020, the Company received a pre-litigation call for payment of the guaranteed amount of EUR 11,972,000.00 under Master Agreement No. IN/GU/1/2015 in connection with KUKE S.A. having paid out to the employer as the performance bond beneficiary that same guaranteed amount of EUR 11,972,000.00. In the opinion of the Management Board of RAFAKO S.A. w restrukturyzacji, the claim made by KUKE S.A. is – by operation of law – a claim covered by the arrangement as part of the simplified restructuring procedure opened with respect to the Company.

On November 17th 2020, the Company received from Generali T.U. S.A. a call for payment of the guaranteed amount of EUR 2,993,000.00 under framework revolving contract bond facility agreement No. GNL-UF/2016/1483/UG in connection with Generali T.U. S.A. having paid out to the employer as the performance bond beneficiary that same guaranteed amount of EUR 2,993,000.00. In the opinion of RAFAKO's Management Board, General T.U. S.A.'s claim constitutes a claim covered by the arrangement as part of the simplified restructuring procedure opened with respect to the Company.

On October 13th 2020, the subsidiary RAFAKO Engineering Sp. z o.o. of Racibórz submitted an application to the *Monitor Sądowy i Gospodarczy* official journal to announce the opening of a procedure to approve the arrangement made under the Restructuring Law of May 15th 2015 as amended by the Act of June 19th 2020 on subsidies for interest payments on bank loans granted to businesses affected by the COVID-19 situation and on simplified procedure to approve arrangements due to COVID-19 (Anti-Crisis Shield 4.0).

On November 10th 2020, the Management Board of RAFAKO S.A. w restrukturyzacji approved arrangement proposals for the creditors whose claims are covered by the arrangement. The adopted arrangement proposals are as follows:

Group 1: creditors holding principal claims of no more than PLN 10,000 (ten thousand złoty), not classified into other groups:

1. repayment of 100% of a principal claim, on a one-off basis, by the last business day of the month following the month in which the decision sanctioning the arrangement was declared final;

2. full cancellation of interest accrued on the principal claim until and after the date preceding the Debtor's arrangement date, as well as full cancellation of any other incidentals, including enforcement costs, incurred until the date preceding the Debtor's arrangement date.

Group 2: creditors holding principal claims of more than PLN 10,000 (ten thousand złoty), not classified into other groups:

1. repayment of 60% of a principal claim, payable in 20 equal instalments at three-monthly intervals, by the last business day of the calendar month falling at the end of each three-month period, with the first repayment instalment due in the first full calendar month following the twelve-month period after the date on which the decision sanctioning the arrangement was declared final;
2. conversion of 20% of the principal claim into newly issued Debtor shares, in accordance with Art. 156.1.4, Art. 169.3 and Art. 169.4 of the Restructuring Law, on the following terms:
   1) the Debtor's share capital will be increased by no less than PLN 2.00 (two złoty) and no more than PLN 100,000,000.00 (one hundred million złoty), i.e. from PLN 254,863,996.00 to no less than PLN 254,863,998.00 and no more than PLN 354,863,996.00, through the issue of no fewer than one (1) and no more than 50,000,000 (fifty million) Series L ordinary bearer shares with a par value of PLN 2.00 per share (the "Series L Shares");
   2) the rights of pre-emption and first refusal with respect to the Series L Shares will be disapplied in full;
   3) the Series L Shares will be ordinary bearer shares;
   4) the issue price per Series L Share will be PLN 2.00 (two złoty);
   5) for each PLN 2.00 of the principal claim, the creditor will acquire one new Series L Share in the Debtor's increased share capital with a par value of PLN 2.00;
   6) if the claim amount needs to be rounded off in order to correlate it with the corresponding multiple of the par value per share, the amount will be rounded downwards to the nearest multiple of the par value per share, while any resulting difference between the claim amount and the value of shares will be cancelled;
   7) the Series L Shares will carry the right to dividend as from January 1st of the calendar year following the year in which the decision to enter the share capital increase in the Business Register of the National Court Register becomes final;
   8) the Series L Shares and resulting allotment certificates for Series L Shares will exist as dematerialised securities, to be converted into book-entry form within the meaning of the Polish Act on Trading in Financial Instruments of July 29th 2005. The Debtor's Management Board will be authorised to enter into an agreement with Krajowy Depozyt Papierów Wartościowych S.A.of Warsaw as the Central Securities Depository of Poland (the "CSDP") on registration of the Series L Shares and allotment certificates for Series L Shares in the securities depository maintained by the CSDP with a view to their conversion into book-entry form;
   9) the Series L Shares and allotment certificates for Series L Shares will sought to be admitted and introduced to trading on the regulated market operated by the Warsaw Stock Exchange (the "WSE"), upon fulfilment of the relevant criteria and conditions, as set down in the applicable laws and WSE regulations, for admission of the Debtor shares to trading on the regulated market. The Debtor's Management Board will be authorised to submit the relevant applications, as required by the WSE regulations, for admission and introduction of the Series L Shares and allotment certificates for Series L Shares to trading on the regulated market, as referred to above;
3. cancellation of the balance of the principal claim;
4. full cancellation of interest accrued on the principal claim until and after the date preceding the Debtor's arrangement date, as well as full cancellation of any other incidentals, including enforcement costs, incurred until the date preceding the Debtor's arrangement date.

Group 3: creditors holding (monetary) claims on account of damages for improper performance of any non-monetary obligations, creditors holding claims on account of liquidated damages, as well as creditors holding tort claims:

1. repayment of 5% of a principal claim, payable in 20 equal instalments at three-monthly intervals, by the last business day of the calendar month falling at the end of each three-month period, with the first repayment instalment due in the first full calendar month following the twelve-month period after the date on which the decision sanctioning the arrangement was declared final;
2. cancellation of the balance of the principal claim;
3. full cancellation of interest accrued on the principal claim until and after the date preceding the Debtor's arrangement date, as well as full cancellation of any other incidentals, including enforcement costs, incurred until the date preceding the Debtor's arrangement date.

Group 4: Social Insurance Institution (ZUS) in respect of claims under social security contributions to be funded by the Debtor as an employer, contributions to the Labour Fund, the Guaranteed Employee Benefit Fund, and the Bridge Pension Fund, the Debtor's own social security and health insurance contributions and other amounts owed by the Debtor to the Social Insurance Institution, as well as other public creditors (including foreign entities) in respect of contributions, taxes and other public levies:

1. repayment of 100% of a claim, i.e. both the principal amount and incidentals, including interest (accrued until and after the Debtor's arrangement date) and enforcement costs;
2. repayment divided into 24 equal instalments, payable at two-monthly intervals, by the last business day of the calendar month falling at the end of each two-month period, with the first instalment payable in the first full calendar month following the nine-month period after the date on which the decision sanctioning the arrangement was declared final.

Group 5: Creditors holding claims secured over the Debtor's assets by a mortgage, pledge, registered pledge, treasury pledge, marine mortgage or assignment by way of security of goods, receivables or other rights:

1. repayment of 100% of a claim, i.e. both the principal amount and incidentals, including interest (accrued until and after the Debtor's arrangement date) and enforcement costs, including those provided for under the relevant agreement creating the security interest;
2. repayment divided into eight annual instalments, where:
   a) the first instalment, equal to 3% of the claim, will be payable by the last business day of 2021,
   b) the second instalment, equal to 8% of the claim, will be payable by the last business day of 2022,
   c) the third instalment, equal to 8% of the claim, will be payable by the last business day of 2023,
   d) the fourth instalment, equal to 8% of the claim, will be payable by the last business day of 2024,
   e) the fifth instalment, equal to 8% of the claim, will be payable by the last business day of 2025,
   f) the sixth instalment, equal to 8% of the claim, will be payable by the last business day of 2026,
   g) the seventh instalment, equal to 25% of the claim, will be payable by the last business day of 2027,
   h) the eighth instalment, equal to 32% of the claim, will be payable by the last business day of 2028.

Group 6: creditors holding solely interest claims which, due to the satisfaction and discharge of the principal liability prior to the arrangement date, have been converted into principal claims:

1. repayment of 7% of a principal claim, payable in 20 equal instalments at three-monthly intervals, by the last business day of the calendar month falling at the end of each three-month period, with the first repayment instalment due in the first full calendar month following the twelve-month period after the date on which the decision sanctioning the arrangement was declared final;
2. cancellation of the balance of the principal claim;
3. full cancellation of interest accrued on the principal claim until and after the date preceding the Debtor's arrangement date, as well as full cancellation of any other incidentals, including enforcement costs, incurred until the date preceding the Debtor's arrangement date.

Group 7: creditors having close relations with the Debtor, within the meaning of Art. 116 of the Restructuring Law:

1. repayment of 6% of a principal claim, payable in 20 equal instalments at three-monthly intervals, by the last business day of the calendar month falling at the end of each three-month period, with the first repayment instalment due in the first full calendar month following the twelve-month period after the date on which the decision sanctioning the arrangement was declared final;.
2. cancellation of the balance of the principal claim;
3. full cancellation of interest accrued on the principal claim until and after the date preceding the Debtor's arrangement date, as well as full cancellation of any other incidentals, including enforcement costs, incurred until the date preceding the Debtor's arrangement date.

On November 10th 2020, RAFAKO S.A. w restrukturyzacji executed Annex 33 to the multi-purpose credit facility agreement of February 7th 2012, as amended. The key amendments made under the Annex are set out below.

A. The facility limit was set at PLN 119,916,154.85, under which the Bank would grant the following sub-facilities to the Company:
    1) an up to PLN 50,000,000.00 overdraft facility;
    2) a revolving working capital facility, in PLN and EUR, up to PLN 7,000,000.00 to finance current liabilities under day-to-day operations;
    3) bank guarantee facilities denominated in PLN, CZK, USD, EUR and GBP, together with a revolving working capital facility in PLN to cover the Company's liabilities for payments made under bank guarantees issued by the Bank of up to PLN 119,916,154.85.

The aggregate amount of all sub-facilities drawn under the credit facility may not exceed PLN 119,916,154.85.

B. The availability and maturity date of the facility specified in the Annex is January 10th 2021.

On November 13th 2020, following completion of the trial run of the 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II, which confirmed that the unit met the requirements set out in the contract, the parties performed acceptance of the unit, which entered commercial operation. The unit operates within the Polish power system.

Nowe Jaworzno Grupa TAURON Sp. z o.o., E003B7 Sp. z o.o. (a wholly-owned subsidiary of RAFAKO S.A. w restrukturyzacji) and RAFAKO S.A. w restrukturyzacji, acting with approval from the supervisor of the Company's arrangement made under the simplified restructuring procedure, signed a settlement agreement resulting from mediation conducted before the Arbitration Court at the General Counsel to the Republic of Poland, with the following key provisions:

1. The Parties, that is RAFAKO S.A. w restrukturyzacji and Nowe Jaworzno Grupa TAURON Sp. z o.o. waived equivalent mutual claims which arose before the settlement agreement date in connection with performance of the contract, except for the Company's claims for the work performed in accordance with the contract, NJGT's warranty or guarantee claims, and recourse claims against RAFAKO S.A. w restrukturyzacji for the payment of claims of lower-tier subcontractors.

(PLN thousand)

2. RAFAKO S.A. w restrukturyzacji will extend the technical guarantee for the high-pressure section of the boiler by six (6) months (to 36 months) and will grant licences to use computer software not covered by the contract. The Company will perform certain additional work, including work to optimise the unit's operation so that its minimum technical capacity is reduced from 40% to 37%.

The settlement agreement will take effect upon fulfilment of certain conditions precedent, including the following key conditions:

1. the Company and the employer signing a handover-for-operation certificate for the unit at the Jaworzno Power Plant by November 15th 2020 (the condition has been met);
2. RAFAKO S.A. w restrukturyzacji providing an agreement in the form of a commitment letter with financial institutions, i.e. Powszechny Zakład Ubezpieczeń S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Gospodarstwa Krajowego, concerning the method of raising funds necessary for the completion of proper performance of the contract (the condition has been met).

The settlement agreement will be filed with a competent common court for approval. Once approved by a final court decision, the settlement agreement will have the legal effect of a court settlement.

Furthermore, on November 13th 2020 Nowe Jaworzno TAURON Sp. z o.o. and RAFAKO S.A. w restrukturyzacji, acting with approval from the supervisor of the Company's arrangement made under the simplified restructuring procedure, entered into Annex 9 to the contract, which sanctions the arrangements made by the parties in the settlement agreement regarding RAFAKO S.A. w restrukturyzacji's additional non-monetary obligations, including obligation performance dates and related payment due dates.

Authorisation for issue

These interim condensed consolidated financial statements of the Group were authorised for issue on November 27th 2020 by a resolution of the RAFAKO S.A. Management Board of November 27th 2020.

Signatures:

Mariusz Zawisza	President of the Management Board	………………………………………..
Radosław Domagalski-Łabędzki	Vice President of the Management Board	………………………………………..
Jarosław Pietrzyk	Vice President of the Management Board, Operations	………………………………………..
Ewa Porzucek	Vice President of the Management Board, Finance	………………………………………..
Jolanta Markowicz	Chief Accountant	………………………………………..